Alliance Contract Model
- A Promising New Contracting Method

“...Alliancing reflects a shift from more traditional procurement methods which focus on strict risk allocations, to a collaborative approach....”

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What is an Alliance Model?

A Project Alliance **is** a commercial/legal framework between a department, as a ‘owner’-participant and one or more private sector parties as ‘service provider’ or ‘non-owner participants’ (NOPs) for delivering one or more capital works projects.
Why an Alliance Approach?

When used appropriately, Project Alliances have the potential to produce many positive outcomes including:

• Greater certainty over project costs,
• Opportunities for innovation
• Improved performance in delivery of infrastructure projects
• **Good quality or level of Service**
General Principles of Alliancing 1/3)

Project alliances are based on clearly understood principles to which all participants are fully committed. A project alliance is typically founded on the following generic principles:

- All participants win, or all participants lose, depending on the outcomes actually achieved.

- The participants have a peer relationship where each has an equal say in decisions for the project.

- Risks and responsibilities are shared and managed collectively, rather than allocated to individual participants.

- Risks and rewards are shared equitably among the participants.
General Principles of Alliancing (2/3)

- All participants provide ‘best-in-class’ resources.

- The participants are committed to developing a culture that promotes and drives Innovation and outstanding performance.

- There is a clear definition of responsibilities in a no-blame culture.

- All transactions are to be fully open-book.

- Communication between all participants is open, straight and honest.
General Principles of Alliancing (3/3)

A project alliance is characterised by:

• Collective sharing of project risks;

• No fault, no blame and no dispute between the alliance participants (Said in agreements)

• Payment for their services under a ‘3-limb’ compensation model

• Unanimous principle-based decision-making on all key project issues;

• An integrated project team selected on the basis of best person for each position.
Leadership in the Model

- Project Alliances operate as ‘virtual organizations’ performing all of the functions required to deliver a project. (As “owners” of the project)

- The Project Alliancing Model aims to create an alliance of high skilled resources working ‘as if they own the company’

- In daily leadership should be used modern and open leadership manners – leadership skills of the project manager are in the key role
## Selection Criteria

(Tullamarine-Calder project)

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Weighting</th>
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<tbody>
<tr>
<td>1</td>
<td>Demonstrated corporate track record and experience in delivering projects of this nature. (Corporate track record and experience must have the involvement of nominated team members.)</td>
<td>25%</td>
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<tr>
<td>2</td>
<td>Demonstrated ability of nominated individual team members to complete the project and deliver <strong>Gamebreaking Results</strong>.</td>
<td>40%</td>
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<tr>
<td>3</td>
<td>Demonstrated approach to complete the project and deliver Gamebreaking Results.</td>
<td>35%</td>
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Payment Principles

• Pay direct costs only + agreed mark-up for OH&P
• All payments made from Project Office whenever possible
• Strive for cash neutrality
• Avoid payment using multipliers where possible
• Pay actual wages only, not an all up rate
• Separate project bank account
• Ensure fairness for all participants, particularly in relation to internal plant hire and use of subsidiary companies
• Regular Audits
• Absolute Transparency
Target Outturn Cost - TOC

- TOC developed jointly as an open book estimate
- Focus on Direct Project Costs and Project Specific Overheads
- Agreement on Non-Owner participants Corp OH & Profit is a separate exercise based on an audit of performance on similar projects
- Rates developed from first principles or competitive quotes
- No hidden profits (eg: salary costs / plant dept rates etc)
- Contingency and Risk factors must be appropriate
- Parallel Independent Estimate undertaken
Payment Mechanism

Limb 1, 2 and 3

Limb 2 Fee is 100% at risk under the limb 3 pain/gain arrangements

Escalation is included into limb 2

Limb 3 can be negative (pain) or positive (gain)

Generally no express cap on upside gain potential (although it will always be inherently limited)

'Normal' profit
Corp. o'heads
Project-specific overheads
Direct project costs

Capped

The downside risk for the NOPs under limb 3 is capped such that each NOP can lose its limb 2 Fee but no more. This means that even in a worst case scenario each NOP will still recover its limb 1 costs.

Illustration only
Not to scale
Painshare/ Gainshare

GAIN and PAIN (Limb3)

Gain share

Pain share

Score based upon achievement of KPIs

Failure on Non-Cost KPI’s

Achieve Non-Cost KPI’s

Alliance Contractors Reward

Risk to Contractors

Cap on Contractors Risk

Saving

Overrun

Final Project Cost

Target Cost
Optimise Project Outcomes (Balanced Scorecard)

KRA’s and KPI’s (Key Result Area and Key Performance Indicators)
- Use KPI’s to maintain focus on wider project objectives
- Performance against KPI’s can influence gainshare/ painshare split
- Retains focus even if painshare applies

KPI’s may include measures of performance for
- Safety
- Environment
- Quality
- Programme
- Social / Community
- Public Relations
- Operations
- etc$
Integrated Project Execution Team

- Project Owner
- Consultant / Contractor

Alliance Leadership Team

Alliance Management Team
Headed by Project Director

Integrated Project Team
Lessons Learnt (1/2)
(New Zealand Experiences)

• Need to involve all stakeholders, whether direct participants in the project team or not
• Equitable risk sharing is paramount
• Integrated teams take longer to orientate and align than predicted but are far more powerful
• Set up costs are greater than for alternative contract forms
• “Alliance” boards work! (solve problems and disputes and eliminate litigation)
• Solving an early problem (crisis!) strengthens the alliance
• Commitment from all parties is essential
Lessons Learnt (2/2)
(New Zealand Experiences)

• Fits many contract situations (particularly complex engineering projects)
• Provides advantages over traditional contracting methods due to alignment and integration of owner and contractors
• Safeguards to protect the respective parties’ interests
• Requires cultural changes
• Can improve project outcomes
• Encourages innovation
• Opportunities for transfer of technology and commercial awareness
• Alliances have good track records
Lessons Learnt (1/2)
(The Nordic Study Tour, March 2007)

• Good Track Records in first Road Projects in New Zealand and Australia
• All parties have been satisfied and interested to continue
• Implementation in Australia needed a long Design Build phase (13 years) to adapt and implement a new cooperation model between individual stakeholders
• Alliance Contract Model has been implemented only for big Construction Projects. One project for maintenance was just in early preparing phase in New Zealand
• Alliance Contract Model needs a complete trust and seamless cooperation between different stakeholders. In Nordic Countries it needs a new cooperation and partnering culture to be fully utilized
Lessons Learnt (2/2)
(The Nordic Study Tour, March 2007)

• Alliance Contract Model is best applicable for Capital Investments
  – When the project size is >30 million €
  – When the complexity of project is high
  – When it is imperative to achieve project completion in the shortest possible timeframe in order to deliver community travel time and safety benefits as soon as possible.
  – When it will be important to carefully manage a number of important stakeholder relationships during the construction of the project

• The Model is also called “Leadership Model”. The utilization of the model needs high level leadership skills.

• The principles of the Alliance Contract Model can also be utilized in Nordic Countries. However, the model has to be adapted to the national and infrasector culture of Nordic Countries.
Developing of Alliance Contract Model within GNA (1/2)

• Within GNA one developing project is “Developing Project Delivery (Contracting) Methods” In that project the focus will be on development of Alliance Contract Model that could be utilized in Nordic Countries. Finland is responsible for leading the project. In the project group are members from each Nordic Country. The project is tightly connected to the “sister project” “Modes of Cooperation - Increased Cooperation”. Those developing projects will have a common project group.

• GNA will arrange a seminar on October 3. 2007 in Stockholm dealing with New Procurement and Contracting methods and also New Modes of Cooperation. In that seminar one focus will be Alliance Contract Model and experiences gained in New Zealand and Australia.
Developing of Alliance Contract Model within GNA (1/2)

• Finnish VTT (State Technical Research Centre) will be involved in the actual Development work. There will be also a doctoral thesis study (Mrs. Tiina Koppinen) included in the development work. The study will be a continuation of the previous INKA-project (Koppinen & Lahdenperä: “Road sector experiences on project delivery methods”, VTT Research Notes. Espoo 2004 and Koppinen & Lahdenperä: “The current and future performance of road project delivery methods”, VTT Publications. Espoo 2004).

• During the development phase a the two GNA developing projects a program of pilot projects of new Project Delivery methods, (also other than Alliance Contract Model) will be prepared and arranged a sharing and reporting procedure of the experiences of those pilots.

• Individual Nordic Countries choose their own pilot projects and timetables for the pilots depending on the local situations and decision making processes.