
Success-focused Project Delivery design - from PPPs to Alliances

Getting the balance right, to get the 'right'
question asked of the market

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Unstable waste ingredients?

- Waste management contracts are one of the **largest contracts handled by local governments**; and are usually completed about once a decade
- 'Alternative waste technology' projects /contracts are **(should be) serious business**
- For most waste services, almost all parties agree that **it isn't a 'cost only' decision**
- **Some markets are highly risky**
- Very few forums to discuss processes openly
- this is one



Themes

Core issue for discussion

- Managing for outcomes

Topic 1:

- How contract types can be selected to be 'successful'

Topic 2:

- Application of Alliances



Topic 1: Selecting for success



What is project success?

- Almost always, it's not defined by the lowest price at tender
- It may often be defined by not exceeding the accepted price, *which is fundamentally different to the above*
- Usually, it's achieving a series of service objectives and not failing / falling over
- **Success is defined by (*the public*), Councillors and the CEO ... so why not ask them?**



Objectives = method

- 'Corporate' objectives, once determined, can be used to shape the contract
 - *example* ... FNQ AWT plant, DBO? or BOO (no T)?
- Understanding the real price estimate (i.e. rates outcome) can drive the scope or solution ... before the tender process
 - *example* ... Mackay integrated waste management project, defer AWT strategy



Mackay IWMP example → situation

example ... Mackay integrated waste management project

note ...it doesn't matter how it got to this point, other than it was by normal, legitimate processes and was a logical position to arrive at from that process

Situation:

1. AWT (implying a PFP) endorsed as the preferred scope by formal Council resolution
2. Officers & consultants concerned that higher price than assumed
3. Technical ↔ political 'block'
4. Desire (need?) to have the Council change it's own mind



Mackay IWMP example → evaluation

- Perspective influencing strategy: In LG, providing an understanding of the real price estimate (i.e. **rates outcome**) can drive the scope or solution ... before the tender process
- Tactic: Seek to use a **necessary** step in structuring the chosen process in order to highlight the matter of concern
- Strategy: Use tender evaluation method as a technique



Mackay IWMP example → evaluation

Strategy: Use tender evaluation method as a technique

1. Ask (as always) to test the evaluation criteria at the highest level (i.e. those who will measure project success)
2. Use (as always) P/NP ratios and RV\$M techniques as a framework –then start with:
3. Ask (as always) how much extra they are prepared to pay for benefits over the benchmark price (bare compliance / minimum service)



Mackay IWMP example → outcome

At step 3 (benchmark)

- (*One, but it only takes one*) councillor suggested the benchmark should be the non AWT solution , and pay not more than 10% extra
- Advisory team then tested NPV? Capital? –draws queries on delivery model & tender outcome → translation to (cash) rates impact is an ‘easy’ jump
- Advisers then able to benchmark a minimum cost impact (in rates) of up to 50%
- Check studies identified probable cash cost of +40% ---



Mackay IWMP example → outcome

After comparative study:

- AWT required tripling existing rate level
- 'Best practice' solution excluding AWT only required doubling existing rates
- Council changed resolution.



Benefits of a 'success-focused' approach

Confirming concept of a 'success-focused' approach

- An approach to designing the contract method & risk allocation to deliver the highest probability of achieving the identified objectives
- Ensuring the persons who will determine the measure of success are engaged in framing the objectives
- Recognising that risk allocation is what contracts are about, and weighting the key risk areas to be managed as the means of designing the contract model (*public domain decision support tools are available*)



Usual outcomes from 'objective based / success-focused' delivery style selection [1]

1. The 'right' question is put to the market –the solution that the agency knows it is prepared to pay for
2. The 'solution model' (type of contract) incorporates risk allocations that incentivate tenderers (& the contractor) to price and deliver the service in a way that maximises chances of targeted outcomes
3. The management systems applied in the contract are similarly aligned to maximise the probability of achieving the targeted outcomes



Possible outcomes from 'objective based' delivery style selection [2]

1. Use of 'Alliance' style contracts for risky projects such as MRFs and projects including 'optimisation' projects – *another topic of itself*
2. Clearer focus in AWT projects on need/drivers for DBO or DBFO – *another topic of itself*
3. 'Bundling' waste systems to allow performance based optimisation



Topic 2: The Alliance Approach



The Alliance Approach

- The Alliance approach to project delivery, is fundamentally just about a different approach to *targeting outcome* and *sharing risk*,
- can be and has been applied to a wide variety of project types –
 - from highly risky major capital infrastructure projects to
 - relatively mundane term services contracts.



Alliance Contract Models

- The 'Pure Alliance'
- The 'Contracted (Project) Alliance'
- The 'Competitive TOC Alliance'

The 'Contracted Alliance' model has been developed specifically for Local Government

- Applied in Coffs Harbour for both 'D&C' works (completed) and 'DBO' works (about to start)



Derivation of the Contracted Alliance

Alliancing in the Public Sector

- Western Australia's Water Corporation, in 1994.
- Queensland Main Roads Department in the early 1990s.
- All the early implementing agencies were large State agencies or GBEs.
- Not constrained by detailed tendering regulations such as those that typically apply to local governments.



Alliancing in Local Government: genesis of the 'Contracted Alliance'

In early 2000, Maroochy Water Services sewage treatment plant upgrade

1. Use of 'Pure Alliance' model, e.g. as the 'owner participant', meant the entire project captured by the tendering requirements of the Local Government Act, hence losing the inherent flexibility provided by contractor procurement processes expected under a 'design and construct' project scope;
2. Council team, with the normal local government limited resources, could contribute operations skills and experience but little else to a potential integrated project team. ('thin client' application)



Alliancing in Local Government: genesis of the 'Contracted Alliance' [2]

3. Relatively small size of the project meant that project-specific PI insurance was not available; and the usual 'no-sue' provisions of an Alliance would leave the Council exposed to post-completion design error risks in a manner that it was not usually exposed to, yet were typically a reasonably significant source of risk for a water business (in accepting externally designed and constructed treatment plant infrastructure). (need for efficient risk management)
4. As the Maroochy project was the first known local government application of Alliancing, the advisory team sought to develop tailored solutions to the identified issues, against a very limited budget.



Alliancing in Local Government: genesis of the 'Contracted Alliance' [3]

Outcome:

The solution developed was the first generation of the 'Contracted Alliance' model, which has subsequently been refined over a number of other local government applications.

Later, the model was successfully tested in a two-project application for NSW Local Government with Coffs Harbour City



Key Features of the 'Contracted Alliance' Model

- Council contracts for the delivery of the 'works' by the Alliance Contractor
- The Alliance Contractor is free to run an optimised procurement system unfettered by the constraints under which Council would normally operate
- Council offers limited resources (usually with operations and maintenance knowledge) for integration into the alliance teams
- Flexibility to respond to changing operational environments is provided on an 'open-book' basis



Potential Applications of Alliances

- Landfill operations –issue of complexity in defining expected service standards
- Resource recovery facilities –issue of variability in cost base and ‘adverse incentive’ of cost to collect over recovered funds
- Transfer station operations –issue of complexity in defining expected service standards
- ‘Alternative waste technologies’ –highly risky projects: a long term investment with variable market outcomes (including potential for the principal to effect market volumes, and regulatory change)

