
In Pursuit Of Additional Value
Benchmark Study into Alliancing

Study Plan

RTI RELEASE

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Benchmark Study Sponsors:
(and members of the Steering Committee)

Treasury, New South Wales
 Treasury, Queensland
 Department of Treasury and Finance, Victoria
 Department of Treasury and Finance, Western Australia

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1. Background

Alliancing is a form of procurement where an Owner collaborates with one or more service providers to share the risks and responsibilities in delivering the capital phase of a project. For selected projects with certain characteristics and context, Alliancing seeks to provide better value for money and improved project outcomes, over other procurement methods, through a more integrated and collaborative approach between the parties in the delivery of a project.

For a government entity, Alliancing involves the collaboration of public and private sector parties and is theoretically adopted for the delivery of complex and high-risk infrastructure projects, where risks are unpredictable and best managed collectively. State Treasuries, to varying degrees, have policy responsibility for the Alliancing procurement methodology and carriage of the whole of government approach for Alliances through: policy; guidelines; training and approvals in specific cases of departmental and selected agency Alliancing projects. A comprehensive Practitioners' Guide¹ was released in 2006 and the adoption of Alliancing as a procurement form is now common across Australia.

A group of four State Treasuries – NSW/Qld/Victoria and WA consider it timely to measure the incremental value for money being achieved for taxpayers through the adoption of Alliancing and have sought the joint services of The University of Melbourne and Evans & Peck to undertake a detailed benchmarking study of Alliancing across Australia. This study will investigate the incremental value of the Alliancing procurement methodology over other alternatives and will be used to inform the development of new Alliancing policies, revise current Alliancing guidelines and develop training programs.

2. Research Aim and Objectives

The aim of this Study is to dimension the incremental value for money outcomes offered to Government (the taxpayer) by Alliancing relative to alternative procurement methodologies.

To assist in achieving the Study aim, the following specific objectives are proposed:

1. Establish a detailed understanding of how procurement methodologies have generally evolved; and specifically the style of current alliance projects;
2. Define VfM in capital and infrastructure projects from a Government perspective;
3. Establish a methodology for assessing the evidenced value proposition provided to Government by Alliancing (including Program Alliancing) compared to other procurement methods (ie "incremental VfM") and also compared to perceived or reported project success. (A range of contextual influence factors eg market conditions, project risk profile, owner objectives etc will need to be considered);
4. Quantify the incremental VfM outcomes that have been obtained from Alliances (i.e. benchmark a small number of projects);
5. Identify lessons learnt from recent Australian Alliances outcomes and recommend policy positions and guidelines to optimize VfM.

¹ Department of Treasury and Finance, Victoria (DTF) 2006 Project Alliancing Practitioners' Guide, Department of Treasury and Finance, Victoria, April, <http://www.dtf.vic.gov.au/CA25713E0002EF43/pages/asset-management---project-support-project-alliancing> [accessed 13.2.09]

In conducting the Study, researchers will be mindful of:

1. In relation to assessing VfM outcomes across procurement methods, the relative impact of;
 - asymmetry in individual and corporate capability to project outcomes
 - procurement method to project outcomes
 - project structures to project outcomes
 - the risk profiles of the various owner and non-owner parties
2. The nature of "competitive tension" and its use to drive optimal VfM outcomes in Alliancing;
3. Observations and the underlining rationale for the variables that add and those that subtract incremental value through Alliancing; and
4. The use of "hard \$" vs. "soft \$" contracts for optimising VfM outcomes for Government; and potential recommendations for Government.

3. Project Scope

The study is to concentrate on government Alliancing projects that have been procured within the last five years. Projects selected should reflect:

- Examples across Australian jurisdictions;
- A mix of successful and "not-so-successful" projects;
- Variants to 'pure' Alliancing;
- Program and project Alliancing.

4. Project Methodology

The study will address the aim and objectives using the criteria and method outlined below. Given the uncertainty in specific detail available on projects, it is planned that some flexibility in the final methodology be retained, with the study structured into two phases:

- **Phase 1** would involve investigation of a broad range of Alliances to establish:
 - The forms of Alliancing being used in Australia
 - The perceived success of current Alliancing, based on reported project outcomes of time, cost and quality
 - Factors and contextual influences on projects
 - An identified list of a small targeted number of case study projects to be analysed in depth

- **Phase 2** would involve an in depth analysis of a small targeted number of case study projects.

Objective 1: Establish a detailed understanding of how procurement methodologies have generally evolved; and specifically the style of current Alliance projects.	
Criteria	Method
Criterion 1.1: Critique the evolution of procurement methodologies	<ul style="list-style-type: none"> • Undertake a literature review of procurement forms that are appropriate for the delivery of capital and complex and high-risk infrastructure projects • Analyse the evolution of procurement forms over time to understand drivers for change
Criterion 1.2: Establish the styles of Project Alliancing being used in Australia	<ul style="list-style-type: none"> • Compile a detailed list of projects undertaken using project Alliancing, (a sample of 30 to 50 projects would be anticipated). [Phase 1] • Develop a pro-forma to categorise Alliance projects, e.g. Project vs Program; pure vs competitive; risk profile; commercial exposure, year of delivery. • Based on industry connections, project contractual documents and government agency input, categorise and analyse the Alliancing projects in the sample.
Objective 2: Define VfM in capital and infrastructure projects from a Government's perspective	
Criteria	Method
Criterion 2.1: Define VfM in the context of this Study	<ul style="list-style-type: none"> • Literature review of VfM definitions • Develop a robust approach for VfM in the context of this study that includes the influences of economy, environment, efficiency and effectiveness.

<p>Criterion 2.2: Articulate any differences VfM definitions between “Government” and Owner level perspectives</p>	<ul style="list-style-type: none"> • Undertake a review of Alliancing project documentation and an informal canvas of views to identify differences in VfM perspectives.
<p>Objective 3: Establish a methodology for assessing the evidenced value proposition provided to Government by Alliancing (including Program Alliance) compared to other procurement methods (ie “incremental VfM”) and also compare to perceived or reported project success. (A range of contextual influence factors eg market conditions, project risk profile, owner objectives etc will need to be considered)</p>	
Criteria	Method
<p>Criterion 3.1 Develop process for comparison of projects delivered using different procurement forms</p>	<ul style="list-style-type: none"> • Articulate a generally acceptable criteria for the selection of the optimal procurement method in a project business case • Consider the relative impact of asymmetry in individual and corporate capabilities, project structures and risk profiles in managing VfM outcomes across procurement forms. • Articulate the underlying rationale for the variables that <u>add</u> and those that <u>subtract</u> incremental value through Alliancing in different procurement forms • It is anticipated this will involve development of a technique for comparison of the influences of project scope, project initiation costs and time.
<p>Criterion 3.2: Articulate a definition of “incremental value”</p>	<ul style="list-style-type: none"> • Workshop a generally acceptable definition that can be applied to the Study of Alliancing projects
<p>Criterion 3.3: Project perceived success</p>	<ul style="list-style-type: none"> • Review the projects identified in Phase 1 to establish how these projects have been reported (by the managing agency) in terms of cost, time and quality outcomes. This review will involve both a desktop appraisal, email contact with project staff and telephone communication with Project Managers from the project teams. • Develop an ‘Experts’ view as to the VfM profile of the projects in terms of that developed as a part of Criterion

	<p>3.1</p> <ul style="list-style-type: none"> Analyse the projects and compare differences between the perceptions of project outcomes from the project team as compared to the 'Expert' view.
<p>Objective 4: Quantify the incremental VfM outcomes that have been obtained from completed Alliances (i.e. benchmark a small number of projects);</p>	
Criteria	Method
<p>Criterion 4.1: Develop a process for selection of projects for the Phase 2 case study analysis</p>	<ul style="list-style-type: none"> Develop the criteria for selection of projects for detailed case study comparison. Filter the projects as identified in Phase 1 through selection criteria to determine up to 8 appropriate projects for analysis.
<p>Criterion 4.2: Select comparison projects</p>	<ul style="list-style-type: none"> Establish the next best alternative procurement strategy for the case study projects. This is likely to be identified from the business case for the project. Based on Expert industry knowledge, identify a project using the second choice procurement strategy to be used as comparison project in a matched project sense for benchmarking purposes.
<p>Criterion 4.3: Project comparison</p>	<ul style="list-style-type: none"> Compare case study project outcomes with those detailed in the business cases for these projects. Compare and analyse the outcomes of the Alliance projects selected in 3.1 with the comparison projects selected in 3.2 using the process developed under item 3.3.
<p>Criterion 4.4: Quantify incremental VfM</p>	<ul style="list-style-type: none"> Consolidate the findings from Phase 1 and Phase 2 of the study

Objective 5: Identify lessons learnt from recent Australian Alliance outcomes and recommend policy positions and guidelines to optimize VfM.

Criteria	Method
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Criterion 5.1: Policy enhancements	<ul style="list-style-type: none"> Identify areas of the existing policy and guidelines for Alliance Projects that can be enhanced as a result of the study.
Criterion 5.2: Future work	<ul style="list-style-type: none"> Develop the next steps to enhance the value proposition to Government in Alliancing projects Recommend policy position, guidelines and training to optimise VfM outcomes for Government
Criterion 5.3:	<ul style="list-style-type: none"> Articulate observations and make recommendations for Government regarding "relationship" contracts generally.

5. Project Timelines

Commence action items of research of Alliancing in March 2009 and complete project by the end of August 2009. However given the current priority of governments to accelerate infrastructure delivery, explore early completion without compromising quality.

6. Quality Management

The quality of this project will be assisted by:

- The caliber of the research alliance team
- An inter-state reference group consisting of Owners, Designers and Constructors coordinated by the Alliancing Association of Australasia
- An inter-state Steering Committee of participating Treasuries
- Victorian Office of the Auditor General to review methodology

7. Communications Management

TBA

Queensland Projects Suggested for Alliancing Benchmarking Study

Project Name	Year commenced	Capital cost (\$M)	Sector	Type of Alliance
Inner Northern Busway Brisbane	2005	140	Urban transport	Pure
Tugun Bypass (Gold Coast)	2006	543	Urban Road	Competitive
Trackstar Alliance	2006	840 ¹	Rail construction	Program
Bruce Highway Upgrade (South of Tully)	2006	128	Regional Road	Pure
Gold Coast Desalination Alliance	2006	1,126	Water	Hybrid
Western Corridor Recycled Water Alliance	2006	2,393	Water	Pure
Safelink Alliance (Ipswich Motorway Upgrade Darra to Wacol)	2007	700	Urban Road	

¹ Combined cost of several projects delivered by program alliance.

SELECTION OF PROJECTS FOR IN-DEPTH STUDY

Criteria for the selection of projects for in-depth study

The research team has proposed that projects included in the detailed study should ideally satisfy the following:

1. Include a balance of project (target at least 4) and program (target at least 2) alliances
2. Projects covering; Road, Water and Transport
3. Projects that are considered excellent in terms of success (time, cost, quality) (target at least 2); projects that did not go well (ie poor cost, time, quality outcome) (target at least 2); and projects that were ok (target at least 2)
4. A mixture of projects from Vic, NSW, Qld and WA
5. Projects where detailed data is available
6. Projects where the project staff are available for interviews
7. Projects that are well progressed or completed
8. Projects where the research team have in depth knowledge

Nomination of projects for in-depth study – TO DATE

	Project	Program	Road	Water	Transport	Success	OK	Not Well	Don't know
Qld									
NSW									
Vic	TCI GWF FF	BW	TCI	GWF FF		TCI FF		GWF	
WA									
Target (at least)	4	2				2	2	2	

Project key:

	Project/Program	Code
Qld		
NSW		
Vic	1. The Tullamarine Calder Interchange (existing fwy works; \$150M) 2. Gippsland Water Factory (re-use of water; \$250M) 3. Future Flow (Irrigation system upgrade; \$273M)	TCI GWF FF
WA		

NOTE: The two freeway Alliances (one with VicRoads as the owner; the other with Transurban as the owner) associated with M1 will be separately investigated.