Project Assessment Framework

Alliance establishment and management

July 2015

Queensland Government

Component of the Project Assessment Framework (PAF)

This document forms part of the Project Assessment Framework, as outlined below.

Overarching policy document	
	Policy overview
Guidance material	
	Strategic assessment of service requirement
	Preliminary evaluation
	Business case development
	Supply strategy development
	Source supplier/s
	Establish service capability
	Deliver service
	Benefits realisation
Supplementary guidance material	
	Cost-benefit analysis
✓	**Alliance establishment and management**
Related policy documents	
	Queensland public private partnership supporting guidelines
	Guidelines for the assessment of market-led proposals

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Purpose

This document provides supplementary guidance regarding the planning and delivery of projects through alliances. It provides advice on applying the principles and processes set out in the Project Assessment Framework (PAF) while taking account of the unique characteristics of project alliances.

The Alliance establishment and management guidance complements the principal PAF guidance and the *National Alliance Contracting Guidelines* released by the Commonwealth Department of Infrastructure and Transport released in 2011. As the material on undertaking projects as alliances in the *National Alliance Contracting Guidelines* is extensive, the focus of the *Alliance establishment and management* guidance is on the following areas:

- explaining how each stage of the key stages in developing and operating an alliance relates to the project stages
set out in the PAF
- providing references to the other relevant Queensland Government policies and guidance relevant to alliances.

Agencies should refer to the PAF Policy Overview for further information about the PAF's application and the roles and responsibilities that may apply.

2

Distinctive characteristics of alliances

While many of the actions outlined in the PAF apply equally to projects delivered as alliances as well as other delivery methods, alliances have a number of characteristics that distinguish them from other project delivery models, which are outlined in the following sections.

2.1 Key alliancing features

Although alliancing has a number of principles in common with other procurement options, including achieving value for money and protecting the public interest, it is underpinned by several key features which lead to successful alliance project delivery. The key features are:

- risk and opportunity sharing
- commitment to 'no disputes'
- best-for-project unanimous decision-making processes
- 'no fault - no blame' culture
- good faith
- transparency expressed as open book documentation and reporting
- a joint management structure.

These features are described in more detail below.

2.1.1 RISK AND OPPORTUNITY SHARING

Projects that are suited to alliancing are complex. These projects benefit from the Owner and Non-owner participant/s (NOP) collaborating to solve problems and deliver the project successfully. Collective risk sharing encourages effective collaboration as all participants will lose or benefit from the ultimate project success, and this differs from traditional contracts where one participant can be successful in delivering on their obligations whilst the other contract parties may face a suboptimal outcome.

When undertaking an alliance contract, the Owner is exposed to project risks that it would normally transfer to another party under a traditional contract or a public private partnership. Traditional risk allocation projects usually provide for construction and design risk to be borne by the designer and contractor rather than the Owner. By contrast, an alliance project has a collective approach to risk, which means that the Owner will share in construction and design risk (and opportunities).

The commercial and project objectives of the Participants are aligned through the development of a project specific Commercial Framework. The standard Commercial Framework model for an alliance provides for the NOPs' remuneration to comprise the following three elements:

- their actual direct project costs (including, e.g. design and site overhead costs)
- their nominated fee (which comprises their profit margin plus an amount for corporate overhead)
- a pre-agreed share of the 'pain or gain' outcome of the alliance project, which is determined by comparing actual and target performance in both cost and non-cost areas.

2.1.2 COMMITMENT TO 'NO DISPUTES'

Alliance contracts generally include a 'no disputes' mechanism where the Participants agree not to litigate, except in limited circumstances. The intention of this approach is to avoid the adversarial or 'claims-based' culture of the traditional contract, and in turn encourage the Participants to find solutions to problems, rather than to deny responsibility and seek to blame others. To give effect to this, alliance contracts have traditionally not included a formal dispute resolution procedure. The commitment to 'no disputes' is also typically supported by an obligation to act in good faith.

Ideally, the 'no dispute' mechanism should also be supported by an Alliance Charter which sets up a model of agreed behavioural principles to drive decision making processes and issue resolution. An Alliance Charter serves to align the Participants' objectives in relation to the project and reduce the risk of litigious disputes between the Participants. The Alliance Charter should form part of the executed Project Alliance Agreement (PAA).

2.1.3 BEST-FOR-PROJECT DECISION MAKING PROCESSES

A key feature of an alliance is the requirement for the Participants to make decisions that are 'best-for-project'. The best-for-project principle is based on the understanding that the Participants will direct their decisions towards the collective vision and objectives of the alliance, rather than their own self-interest or the commercial interests of their employer. Ultimately, the Commercial Framework should operate to ensure that, by acting in the best interests of the project, the Participants will also be acting to support their own best interests. Under an alliance, Owners are willing to trade-off their traditional contractual rights (under a 'risk transfer' contract) in exchange for NOPs bringing to the project their good faith.

There is no concept of 'best-for-self' decision making under an alliance contract. The Participants operate in a peer relationship as part of a joint management structure where each Participant has an equal say in decisions for the project. It is expected that all joint decisions made by the Participants will be best-for-project.

Generally, this means that those decisions will:

- be made in accordance with the alliance principles developed by the Participants and incorporated in the PAA
- drive the achievement of all project objectives at a fair cost, where a fair cost is reference to best-in-market pricing
- be made in a way that reflects the Participants' behavioural commitments under the PAA (including the Alliance Charter)
- fully take into account public sector standards of behaviour and protect the public interest.

2.1.4 A 'NO FAULT – NO BLAME' CULTURE

The establishment of a 'no fault – no blame' culture underpins the alliance delivery method. It involves a commitment from each of the Participants that, where there is an error, mistake or poor performance under the alliance contract, the Participants will not attempt to assign blame but will rather accept joint responsibility and joint consequences and agree a remedy or solution that is best-for-project. If the Participants disagree, they must work together to resolve issues in a best-for-project manner.

The 'no fault – no blame' culture is intended to optimise outcomes for the Owner by refocussing the Participants away from acting in a best-for-self manner and towards acting in a best-for-project manner. The PAA should also be structured to encourage the Participants to address the relevant issue, rather than place blame.

2.1.5 OPERATE ACCORDING TO GOOD FAITH AND INTEGRITY

The requirement to act in good faith and with integrity underpins each of the key features of alliancing. Good faith relates to the behaviours and shared cultural values that the Participants aim to achieve in delivering the alliance project, including cooperation and communication between the Participants, and a requirement to always be fair and honest and act with integrity. Specific elements of good faith include:

- an obligation on the Participants to cooperate in achieving the project objectives
- compliance with reasonable standards of conduct, having regard to the interests of the Participants
- an obligation to act fairly, including not deriving any commercial benefit at the expense of other Participants
- an obligation not to enter into any engagements which give or potentially give rise to a conflict between one Participant's personal interest and their duty to the other Participants
- an obligation to account for profits or gains made by virtue of the relationship, or opportunity or knowledge resulting from that relationship.

2.1.6 TRANSPARENCY, EXPRESSED AS 'OPEN BOOK' DOCUMENTATION AND REPORTING

Under an alliance, Owners have the opportunity to work closely with the NOPs to make joint decisions for and manage their alliance project. The Participants commit to an 'open book' arrangement and have much broader mutual access and audit rights. These provisions ensure that the costs that are reimbursed to the NOPs under the remuneration framework have been actually and reasonably incurred. Moreover, it is important to be able to fully read and understand, in accordance with public standards of financial prudence, the 'open book' documentation and thereby reduce the risk of decisions that may adversely impact the Owner's objectives/ interests.

2.1.7 A JOINT MANAGEMENT STRUCTURE

An alliance is a legal relationship between parties and has a well-defined governance structure. The structure has parallels to a company structure and generally comprises the following:

- Owner and NOP Corporations
- Alliance Leadership Team
- Alliance Manager
- Alliance Management Team
- Alliance Project Team.

Each of these groups includes representatives from all Participant organisations. The formal governance framework enables the alliance to make all project decisions collectively and jointly manage all responsibilities. The PAA forms the contractual agreement which underpins the alliance governance structure.

A key feature of the joint management structure is that Alliance Leadership Team decisions must be made unanimously. Every Alliance Leadership Team member is entitled to cast a vote in the decision-making process and the final decision must be unanimous.

Sources for further information:

The Guide to Alliance Contracting, part of the National Alliance Contracting Guidelines, sets out in further detail the key characteristics of project alliances and is available at www.infrastructure.gov.au/infrastructure/nacg/files/National_Guide_to_Alliance_Contracting04July.pdf

2.2 Forms of alliance contract

Alliances can take the following forms of collaboration between an Owner and Non-Owner participants.

2.2.1 PROJECT ALLIANCE

The project alliance variation involves the formation of an alliance to deliver a single project, after which the team is disbanded. The *Alliance establishment and management* supplementary guidance material addresses this option in particular, but is also relevant to the other forms of alliance.

2.2.2 PROGRAM ALLIANCE

The program alliance option involves the formation of an alliance to undertake a number of projects over an extended period (possibly 5 – 10 years). At the time of formation, the number, scope, duration and estimated costs may be unknown. While the same participants may deliver a number of projects in a program alliance, each individual project and the choice of an alliance to deliver the project still needs to be justified in a business case.

2.2.3 SERVICE ALLIANCE

The service alliance option involves the formation of an alliance to deliver operations and maintenance services. While the focus of the alliance in this case is on the operational stage, the choice of an alliance for operations would still need to be supported by analysis at the *Business case development* and *Supply strategy development* stages.

3

Application of PAF guidance of alliances

Each stage of the PAF from *Preliminary evaluation* to *Benefits realisation* is relevant to the development and operation of projects as alliances. The *National Alliance Contracting Guidelines* recognise the importance of making the case to deliver a project as an alliance in the project business case, before starting an alliance procurement process. However, the national guidelines rely on individual jurisdictions' guidance on conducting business cases and selecting an appropriate procurement model.

The following sections highlight the elements of each stage of the PAF which are applicable particularly to alliances.

3.1 Preliminary evaluation

The following adaptations of the Preliminary evaluation guidance are relevant for projects considered for alliance delivery.

3.1.1 PRELIMINARY RISK ANALYSIS

In the *Preliminary evaluation* stage, the risks for each project option under consideration are identified, quantified where possible, and allocated tentatively to the party which could best manage the risk. A project option would have potential for delivery as an alliance if the analysis indicated:

- some risks identified as significant that could not be quantified
- some risks that would be more appropriately managed jointly rather than allocated to a single party.

3.1.2 PRELIMINARY FINANCIAL ANALYSIS

An option under consideration would have potential for alliance delivery if the approach to the option was innovative and required the best cost estimates to be based on limited detail designs. It is important that the cost estimates for this option are still estimated as accurately as possible, to provide a basis for deciding if the option is suitable for more detailed assessment at the *Business case development* stage.

3.1.3 PRELIMINARY MARKET SOUNDING

Initial consultation with potential suppliers and partners can provide an indication of private sector interest in and capacity to undertake a project as an alliance. Where a project option is likely to require an innovative approach or would need to be delivered within strict time limits, market sounding can include specific questions about interest in potential alliance delivery.

However, it is important that the eventual decision to undertake a project as an alliance is not based simply on a market preference for the alliance approach, or the limited availability of suppliers due to high levels of construction activity. Instead, the decision to use an alliance is based on an overall assessment that it would be the best delivery option for achieving project goals and objectives.

3.1.4 PRELIMINARY PUBLIC INTEREST ASSESSMENT

One of the criteria for the public interest assessment is the likely impact of a project option on stakeholders. Where the likely impact of a project option on stakeholders is identified as significant, this would indicate that an alliance could be appropriate for this option.

3.1.5 PROCUREMENT APPROACH

At the end of the Preliminary evaluation stage, the project team makes a recommendation on whether a project is likely to achieve greater value for money as a PPP. If a project is not likely to achieve greater value as a PPP but is still a priority and affordable, delivery as an alliance may be assessed further at the Business case development stage.

3.2 Business case development

For project options which are examined in more detail at the *Business case development* stage, the following adaptations for potential alliances would be considered.

3.2.1 RISK ANALYSIS

At *Business case development* stage, the identification and (where possible) quantification of risks are undertaken in more detail. A project option under consideration is likely to be suitable for alliance delivery if:

- some risks identified as significant could not be quantified, or fully quantified
- some risks would be more appropriately managed jointly rather than allocated to a single party.

3.2.2 DETAILED FINANCIAL ANALYSIS

An option under consideration may be suitable for alliance delivery if the best cost estimates which can be produced are based on limited design details, due to the innovative nature of the approach in the option. It is important that the cost estimates for this option are still estimated as accurately as possible, to provide a basis for deciding if the option is suitable for more detailed assessment at the *Business case development* stage.

3.2.3 MARKET SOUNDING

Consultation with potential suppliers and partners can provide a further indication of private sector interest in and capacity to undertake a project as an alliance. Where a project option is likely to require an innovative approach or would need to be delivered within strict time limits, market sounding can include specific questions about interest in potential alliance delivery. It is important that market sounding at *Business case development* stage should not include any commitment to use a particular delivery model for the project.

3.2.4 PUBLIC INTEREST ASSESSMENT

A more detailed public interest assessment will provide further information on the likely impact of a project option on stakeholders. Where the impact of a project option on stakeholders is identified as significant, this would indicate that an alliance could be appropriate for this option.

3.2.5 PREFERRED PROCUREMENT STRATEGY

The *Business case development* guidance recommends considering at least two procurement or delivery options for each project option under active consideration. Where an alliance is one of the options being considered, applying the procurement assessment criteria set out in the *Business case development* guidance consistently across options is necessary to determine if an alliance would be the preferred approach.

3.2.6 RECOMMEND A PREFERRED OPTION AND DELIVERY MODEL

If the preferred project option would be most appropriately delivered as an alliance, the recommendation to decision makers (usually Cabinet Budget Review Committee) would include a justification for the recommendation, based on project characteristics and responses to market sounding.

The alliance procurement process can only commence once approval from decision makers has been received.

Producing an Owner's Value for Money Statement

At the conclusion of the business case, the *National Alliance Contracting Guidelines* recommends developing an Owner's Value for Money Statement, which includes project deliverables to be achieved by the alliance and the success criteria by which the alliance will be ultimately judged. *National Alliancing Guidance Note 4*, *Reporting Value for Money Outcomes*, provides further detail on the range of information which is included in the Owner's Value for Money Statement. This Guidance Note is available at: www.infrastructure.gov.au/infrastructure/nacg/files/NACG_GN4.pdf

3.3 Supply strategy development

At the Supply strategy development stage, the approach to alliance procurement will be determined. The key decisions at this stage are:

- components of the project to be delivered as an alliance
- the type of competition among partners to be used in the alliance partner selection process
- the range of potential partners to be invited to submit proposals.

3.3.1 COMPONENTS OF THE PROJECT DELIVERED AS AN ALLIANCE

Based on the assessment of costs and risks for the preferred option at the *Preliminary evaluation* and the *Business case development* stages, the Owner can make an assessment on whether the alliance would cover both the design and construct stages, either the design or construct stage, or may cover the operating and maintenance stages.

As the *Strategic assessment of service requirement* guidance indicates, the construction of infrastructure can be regarded as a project in itself. It is usually at this stage that an alliance would offer most value. The degree of risks which are difficult to quantify or would be most appropriately managed jointly could be greater at either the design or construct stages, and in these cases it may be appropriate to use an alliance at one of these stages.

3.3.2 FORM OF COMPETITION IN SELECTING AN ALLIANCE PARTNER

Consistent with the requirements of the *Queensland Procurement Policy* and the *Policy for Alliance Contracting*, the selection of partners for all projects considered for alliance delivery is on a competitive basis. The forms of competitive selection are:

- full-price competition, in which two short-listed proponents develop separately their proposals, which addresses both price and non-price criteria. The project Owner enters into an alliance agreement with the proponent whose proposal offers the greatest value for money
- partial-price competition, in which two short-listed proponents develop separately their proposals, but with not all components of the project fully costed. This approach can save time in procurement compared with full price competition
- non-price competition, in which short-listed proponents are assessed on factors such as the quality of their key personnel, track record in project delivery, and understanding of the requirements of the project. The project Owner then enters into an alliance agreement with the preferred proponent, which then develops its detailed and fully-costed project proposal.

Any departure from price competition being a key tender selection criterion for a proposed alliance project or program alliance needs to be supported in the business case and/or procurement options analysis, endorsed by the Portfolio Minister and agreed by the Treasurer.

Where an agency is seeking an exemption from using price competition, the case for exemption would rely on the project having characteristics which would make non-price competition the preferred approach.

The table sets out the characteristics of projects which would support selecting either price or non-price competition.

Table 1: Competitive selection

Likely advantage for price-competitive selection	Likely advantage for non-price-competitive selection
• Where there is clear scope and goals and a good understanding of risk, or risk is moderate but there are other circumstances (e.g. urgency) that dictate that an alliance is the optimum delivery strategy. • Where there are relatively low or well understood community and environmental risks. • Where the Owner has good organisational capacity to provide the resources and expertise to support two concurrent proponent teams through the Target Outturn Cost (TOC) development phase. • Where innovation is important and it can be achieved within a relatively short price competitive selection period. Price competition may yield two quite different solutions. • Projects that require technological solutions (or proprietary technology) allowing different technologies to be evaluated to come up with the optimum solution. • Where being able to assess two alternative technologies would contribute to risk management (as the Owner would not be relying solely on one particular technology). • Where there is a competitive market and no shortage of resources. • Where time to negotiate and finalise a TOC is limited. Additionally, where having a TOC decided at the end of the selection process will enable the parties to move immediately into the project execution phase.	• Projects that require innovative design and detailed constructability input due to large risks, complexity or impacts from external stakeholders out of the Owner's control. • Where the scope is unclear, or where substantial scope development is required. • Projects that require very close relationships. For example, where the Owner needs to fully participate in and influence development of the solution. • Where early engagement with the community and stakeholders is critical to the success of the project and development of the best solution. • Where time is critical, or tight or immovable completion dates are set. The Owner has genuine ability to be involved earlier as part of the integrated alliance team. • Where the Owner wishes to contribute resources or technical expertise to development of the solution as part of the alliance team. • Where the Owner does not have sufficient resources to effectively support two concurrent proponent teams through the TOC development phase. • Where there is limited market competition or the market has limited capacity to deliver.

3.3.3 DETERMINE THE RANGE OF POTENTIAL PARTNERS TO INVITE TO TENDER

Due to the size and complexity of many alliance projects, it may be appropriate to undertake a select tender rather than an open tender when calling for expressions of interest. However, the number of firms invited to offer should still be sufficient to ensure competitive tension and a range of proposals for meeting the project objectives.

Developing the Target Outturn Cost

The process for developing the Target Outturn Cost for alliance projects, with a focus on the price competitive process, is set out in *National Alliancing Guidance Note 5, Developing the Target Outturn Cost in Alliance Contracting*, available at www.infrastructure.gov.au/infrastructure/nacg/files/NACG_GN5.pdf

3.4 Source supplier/s

The *Source supplier/s* stage is a highly interactive process with an alliance, either where price competitive or non-price competitive selection is adopted.

3.4.1 PRICE COMPETITIVE SELECTION

In this case, the Owner assesses tender responses, initially on non-price criteria such as the quality of the solution to the project objectives, and then short-lists two preferred proponents. The Owner provides staff who work closely with each team to provide guidance on developing their proposal in detail and with full costing. Observing probity in the interaction with each team, especially in not sharing details of the other proponent's proposal, is essential in this process.

At the completion of the selection process with a price-competitive approach, the Owner and the preferred proponent are ready to sign a PAA.

3.4.2 NON-PRICE COMPETITIVE SELECTION

In assessing the capabilities of shortlisted proponents, detailed interviews and workshops with the proponents may be undertaken to determine which team is most likely to work effectively in an alliance.

At the completion of a selection process with a non-price-competitive approach, the Owner and preferred proponent execute an Alliance Development Agreement. The Alliance Development Agreement phase covers the negotiation of the design and construction solutions for the project, and development of the TOC.

Templates for Projects Agreements

The National Alliance Contracting Guidelines include templates for both a Project Alliance Agreement and an Alliance Development Agreement. The details of the agreements will be adapted for each project. These templates are available at
https://infrastructure.gov.au/infrastructure/nacg/index.aspx

3.5 Establish service capability

Once a PAA has been signed, the parties establish the governance and management arrangements for the alliance. As noted in section 2.1.7, the structure of an alliance would consist of:

- Alliance Leadership Team
- Alliance Manager
- Alliance Management Team
- Alliance Project Team.

It is essential for the project Owner to be represented on each of the Alliance Leadership Team, the Alliance Management Team and the Alliance Project Team. The Leadership and Management teams would need to establish processes to operate as an integrated team, such as the frequency of meetings, communication strategies, and internal dispute resolution

The cost and performance benchmarks for determining if the project has performed better than expectations (and the alliance partners will participate in 'gain-sharing') or has not performed as well as expected (and the alliance partners will participate in 'pain-sharing') are also set at this stage.

3.6 Deliver service

In an alliance to deliver a construction project, this stage involves the construction and hand-over of the relevant asset. In an alliance to deliver operating and maintenance services, this is the operational stage of the project.

In this stage, the alliance partners are expected to manage or develop solutions to unexpected risks which could lead to time or cost over-runs, to still achieve the agreed time and cost benchmarks negotiated as part of the development of the TOC.

3.7 Benefits realisation

When an alliance project reaches the stage of hand-over to the Owner, measuring actual benefits achieved is an important part of determining whether the expected project outcomes have been achieved, and therefore whether the alliance partners will participate in gain-share or pain-share arrangements.

The *National Alliancing Guidelines* provide for the production of the Owner's Value for Money Report to be produced post-completion for the Government, and validated independently by parties separate from the alliance. This report will demonstrate whether expected benefits have been achieved within the approved funding for the project. Validation of the Value for Money Report will usually be undertaken by a specialist commercial adviser that has been engaged by the Owner.

Guidance on the Value for Money Report

National Alliance Contracting Guidelines set out the material which can be included in the Owner's Value for Money Report in Guidance Note 4, Reporting Value for Money Outcomes. This Guidance Note is available at:
www.infrastructure.gov.au/infrastructure/nacg/files/NACG_GN4.pdf