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Building can be a happy alliance

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WE ARE entering an almost unprecedented era of infrastructure investment in Australia. In Victoria alone, the State Government committed a record \$4.9 billion in its latest budget to build roads, railways, hospitals, schools and courts, and to buy trains and trams.

This investment activity will stretch the resources of the construction and engineering industry. The construction industry is also hindered by the adversarial approach, or "claims mentality", of traditional project contracting.

These factors challenge the utility of older contracting methods and encourage the use of methods that facilitate innovation and collaboration, while protecting the interests of all stakeholders; the Government, contractors and the public.

We are seeing governments looking outside the square to alternative ways to have vital infrastructure built. And while public-private partnerships are an alternative that has come to prominence, we are also now seeing others, such as alliance contracting (also referred to as project alliancing), evolving into the mainstream.

Under a traditional procurement model, owners will try to minimise costs, while the builder's motivation is to maximise the contract price that can be recovered from the owner. There is competition between parties with respect to the risk and cost that each bears, and often there is an assumption that disputes will be inevitable. Often they are.

In contrast, alliance contracting is fundamentally a partnership in which all the project participants agree to there being no disputes and to a sharing of risks and rewards. Central to it is the proposition that better outcomes can be delivered through relationships that are focused on the common good of the project.

The philosophy of alliance contracting assumes that behaviours that are in the collective interest of the project will also serve the individual interests of each participant. Because all parties benefit collectively, the theory is that there will be increased innovation, improved productivity, no disputes, and ultimately an increased shared financial reward.

Alliancing was first used more than a decade ago by the oil and gas industry in Western Australia, and has, where appropriate, been adopted by both state and Commonwealth governments. Notably it was used in the building of the National Museum in Canberra, while

the Queensland Government has been the greatest supporter — using it for a number of projects including the north Queensland gas pipeline and the Port of Brisbane motorway.

Projects such as the Tarong coal transport project and South East Queensland Infrastructure Plan and Program rail project are among others that account for more than \$2 billion being delivered through project alliances in that state.

Here in Victoria, project alliancing has not historically been widely used in infrastructure projects. However, the indications are that it may grow in popularity. It has already been employed in the high-profile channel deepening and Tullamarine-Calder interchange project.

At an Engineers Australia lunch in Melbourne, Treasurer John Brumby commented on the procurement methods the Victorian Government had used and proposed to use for its infrastructure investment, mentioning PPPs and project alliancing.

The Government's commitment to consider alliancing is further reflected by the recent publication by the Department of Treasury and Finance of a project alliancing practitioners' guide, an impressive reference for this project-delivery methodology. And favour is being found from within private-sector projects.

Engineering services company Downer EDI declared its intentions last week to shift its focus to alliance-style contracts, on the back of significant cost overruns and time delays relating to the design and plant installation of the Douglas mineral sands project.

"We are continuing to focus on mitigating the risk of construction contracts within the mining division by moving to a more favourable mix of alliance-style and fixed-price contracts," a Downer EDI media release said.

"We will continue to focus on shifting a greater proportion of revenues to the alliance-style contracts."

United Group in its annual report released this month, disclosed that nearly half of its order book for its infrastructure division is now made up of alliance-based contracts, which are "delivering more stable and predictable earnings".

Alliance contracting may be moving into the mainstream but it particularly suits a certain type of project.

These projects are generally large in scale, but more particularly complex, where a collaborative approach to overcoming technical, scale or other complexities can deliver a superior return.

Commentators suggest that alliance contracting could be employed for perhaps 10 to 15 per cent of projects.

There is a role for a range of procurement methods in this period of infrastructure investment. Each method will be assessed for its suitability on a project-by-project basis, but the indications are that "alliancing" is something we are going to be hearing more of.

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