**What Makes a Good Alliance?**

Alliance Contracting is more than just another form of Contract. It's about creating an alignment between all the core participants (companies and individuals) and the project systems/structure, culture, behaviours and individual commitment. The aim is to achieve outstanding results on the project, against the traditional model of merely delivering a project on time and on budget.

So what is the difference between the traditional approach and the Alliance contracting pathway?

Under the traditional approach, a proponent will typically seek to deliver a project that delivers a lowest cost outcome; maximum functionality and performance; maximum return on assets; flexibility (such as having an ability to change technology/scope definition); a minimum schedule duration; and ability to transfer risk. Under this model, proponents typically adopt tender processes and contracts that drive contractors to:

- Minimise bids to win
- Shift risk back to owner
- Seek out weaknesses in the contract, specification and scope
- Increase revenue
- Exploit scope growth, change and delays through variations to maximise profit growth opportunities.

Under an Alliance Contracting Model, collective responsibility is taken for some or all project risks. Some underlying principles include:

- No contractual walls
- People selection is made on a "best for project" basis
- Commercial model aligning goals of all parties
- Unanimous decision-making and no disputes
- A "whole project" focus, rather than 'my bit', ie. no more "that's their problem"
- Single governance structure, which essentially features a single entity made up of the relevant parts.

The Alliance would involve integrated teams, structured to provide a better result. The objective is to focus on performance rather than contract.

So what types of projects are suited to Alliancing?

Alliance Contracts generally work on projects where there are a high number of unknowns and a high degree of complexity. Typically, they could involve radical or rapidly developing technology, short or flexible timeframes, an intention to engineer value (through delivery innovations) and a need to reduce capital costs to become viable. These projects could involve high risk from stakeholders or external influences, and increasingly have issues revolving around the client capital program, as opposed to resources and a capability to deliver.

The ability to mobilize quickly and progress large and complex projects according to challenging timeframes is increasingly common for large infrastructure projects. The relatively simple contractual basis of Alliances is well suited to achieving a quick start on projects.

There are three main types of Alliances:

1. Alliances that are built to achieve better levels of performance than that possible through more traditional delivery models
2. Alliances established to allow owners to achieve significantly larger and more complex capital programs without a corresponding increase in resources; and
3. a combination of 1 and 2 (often where Type 2 alliances end up)

Importantly, the selection process and criteria for the type of Alliance should remain focused on quality and commitment regardless of category.

The Commercial Framework around an Alliance Contract is particularly interesting.

Importantly, they are highly transparent, with all parties aware of the costs associated with project delivery, and the expected profit or loss to all concerned.

Generally, the Commercial Framework will consist of three parts or "limbs", with Limb 1 generally related to payment of direct project costs, Limb 2 covering corporate overheads and profit, and Limb 3 for Pain/Gain share. Limb 3 can be based on performance against agreed criteria in Key Result Areas (KRA's) that are developed by the Alliance and applied to an allocated pool of funds. Limb 3 may also involve a share in the capital cost overrun or under-run. Limb 2 is adjusted upwards or downwards according to the outcomes of Limb 3.

The principles of pain/gain share are reasonably simple:

- It must meaningfully incentivise the Alliance to achieve exceptional outcomes
- It must be linked to real risks and benefits
- The only way to increase profit margin is through gamebreaking performance;
- There is no win / lose scenario
- Each party has meaningful incentive
- The project sponsor is committed to maximising participant returns = win win win
- There are links between separate elements, ie. there is no incentive to play one party off against another.

In essence, Normal Performance = Normal Reward; Poor Performance = Poor Reward; and Outstanding Performance = Outstanding Reward.

The following table demonstrates some project objective examples:

| **Key Result Area (KRA)** | **Minimum conditions of satisfaction** | **Gamebreaking performance objectives** |
|---|---|---|
| **Cost** | Deliver project within budget | Deliver project for 20% under budget |
| **Schedule** | Deliver project on time | Deliver project six months early |
| **Quality** | Deliver project to agreed specifications (workmanship and design) | Deliver project to agreed benchmarks of outstanding workmanship<br>Design project to agreed benchmarks of high levels of integration with existing and adjoining assets |
| **Community** | Project is not delayed by community or stakeholder opposition | Widespread community advocacy and support for the project. |
| **Operability** | Operators and end users are satisfied with the asset | Widespread support and high levels of satisfaction with the delivered asset |

Typical KRA's include:

- Cost

- Schedule
- Quality – workmanship
- Community relations
- Environment
- Stakeholder advocacy
- End user satisfaction
- Team member satisfaction.

If performance does not meet the minimum conditions of satisfaction and certainly is not regarded as a "gamebreaking" performance, then project participants can only expect to recover their direct costs. This would likely be a loss scenario and is better known on Alliances as "painshare". This is obviously not desirable, and an indicator that performance on the project by all participants has been poor.