Relationship contracting – Principles and benefits

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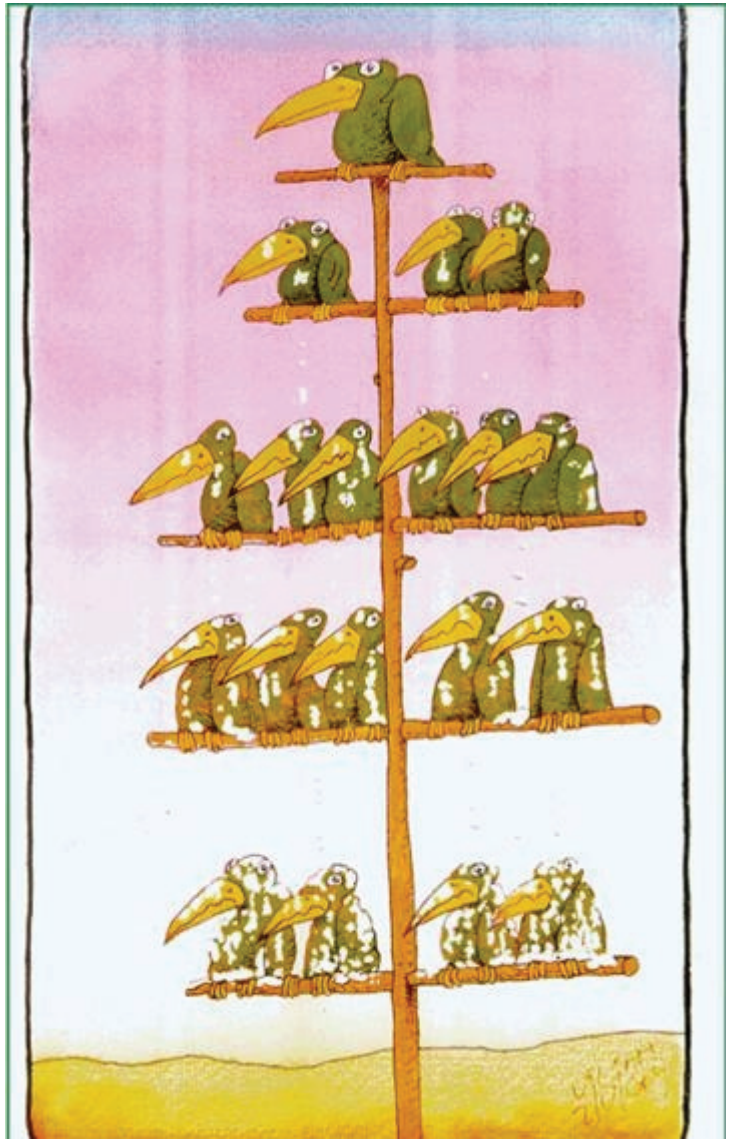
Relationship contracting – Principles and benefits



<=Developer/Government Body

<=Implementing Body

<=The Engineer

<=The Consultants

<=The Contractors

Relationship contracting – Principles and benefits

<=Developer/Government Body

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Overview

- Definition
- Basis of relationship contracting
- Guiding principles
- Key features of a successful arrangement
- Selecting an appropriate delivery system
- Benefits of relationship contracting
- Risk allocation
- Summary

Relationship contracting – a definition

Relationship contracting is a
flexible approach to
establish and manage relationships
between clients, consultants
and contractors, and to
implement proven practices and techniques
to optimise project outcomes

Based on achieving project outcomes

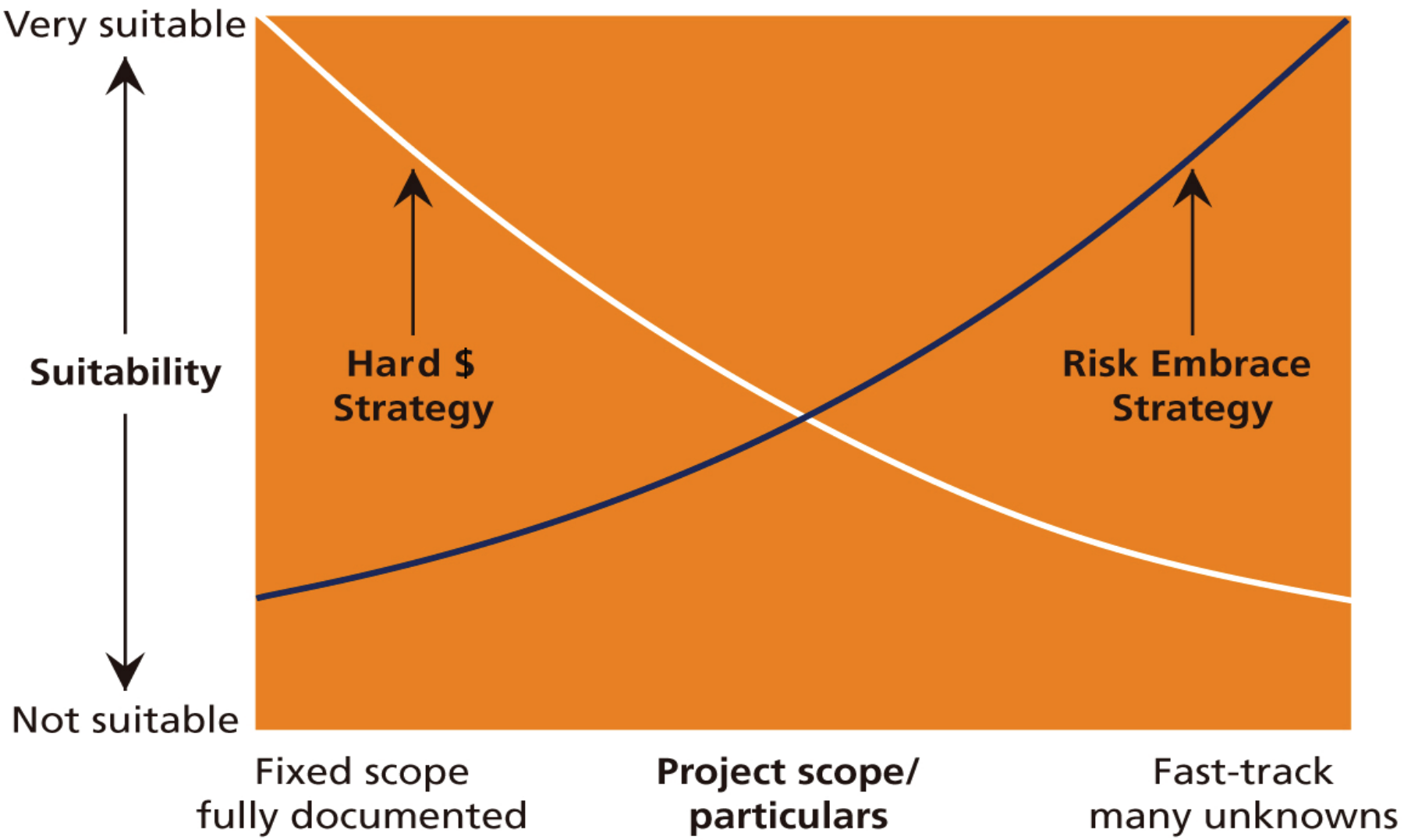
Relationship contracting is based on achieving successful project outcomes, which include:

- Completion within cost
- Completion on time
- Strong people relationships between the parties
- Optimum project life-cycle cost
- Achieving optimum standards in all areas

Management of risk

- Traditional risk transfer methods fail due to poor allocation of risk
- Relationship contracting is based on the understanding that project risks are best allocated to the party best suited to manage them
- All parties must be prepared to carry some risk
- Contracts often fail if clients attempt to transfer all project risk to consultants and clients; or if either of these seek higher returns without accepting a greater proportion of risk

Risk embrace strategy



Guiding principles

- Commitment
- Trust
- Respect
- Innovation
- Fairness
- Enthusiasm

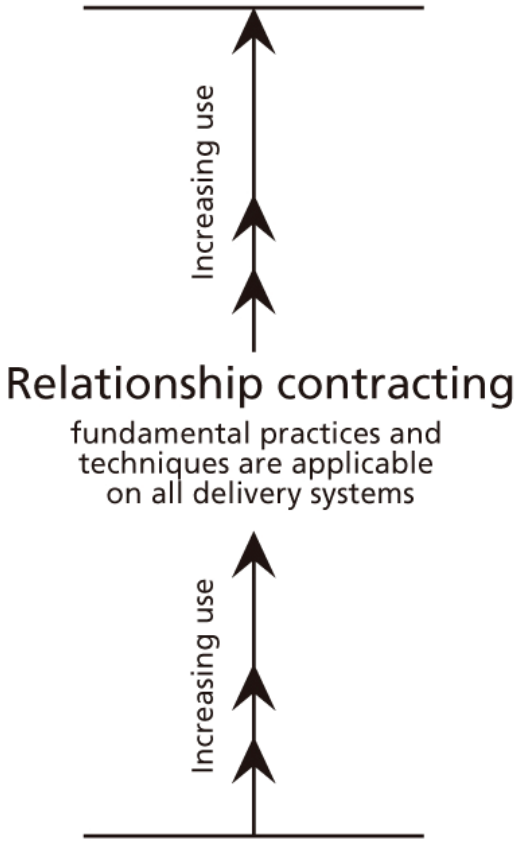
Key features of a successful arrangement

- Focus on project results
- Innovative contractual arrangements
- Access to and contribution by best resources of each participant
- Clear understanding of individual and collective responsibilities
- Success measured against KPIs
- Emphasis on openness and co-operation
- Equitable risk/reward balance

Suitability matrix – project delivery systems

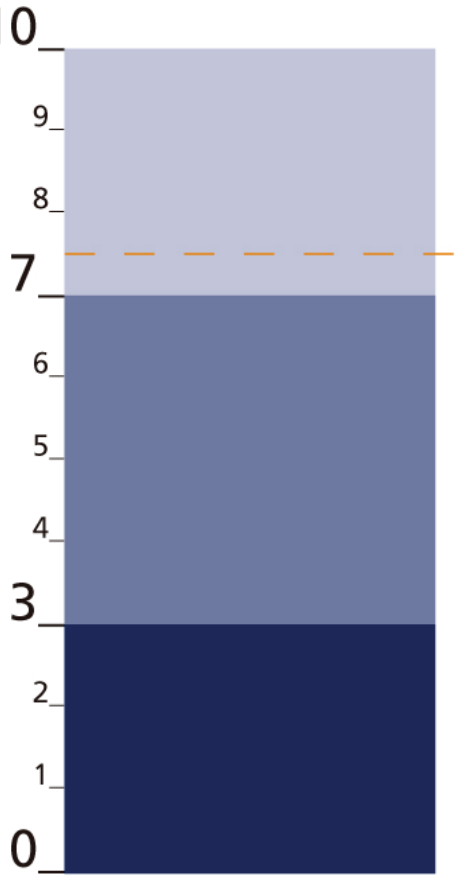
	Weight	Low rating	1	2	3	4	5	6	7	8	9	10	High rating
1. Is early delivery of project of value to owner?	20%	No value at all									1.80		Of great value
2. Nature of work - green field versus brown field?	15%	Total green field site								1.20			Many critical interfaces with existing operating facilities
3. Technology - proven or radical?	10%	Well proven stable technology (will not evolve during project)							0.70				New and/ or evolving technology
4. Risk culture of owner?	10%	Totally risk averse - risk transfer culture								0.80			Strategic management of risk - sophisticated view of risk
5. Tight guaranteed maximum price (GMP) essential for project sanction?	10%	Tight GMP essential							0.70				Owner flexible within range
6. Industrial relations environment?	10%	Very low risk									0.90		Very high risk
7. Proven relationship contracting record with potential engineering contractors?	8%	No track record or bad track record								0.64			Good track record
8. Sensitivity to disruption from aboriginal/ heritage/ environmental issues?	7%	Very low risk							0.49				Very high risk
9. Owner's understanding/ experience of project delivery process?	5%	Little experience					0.25						Very experienced
10. Will construction require single (multi-discipline) or many contractors?	5%	Will require many different contractors				0.20							Could be constructed by one contractor
	100%	Drop-down totals	-	-	-	0.20	0.25	-	1.89	2.64	2.70	-	= 7.68

Project delivery systems



Total from diagram 2

Suitability matrix



Project delivery systems

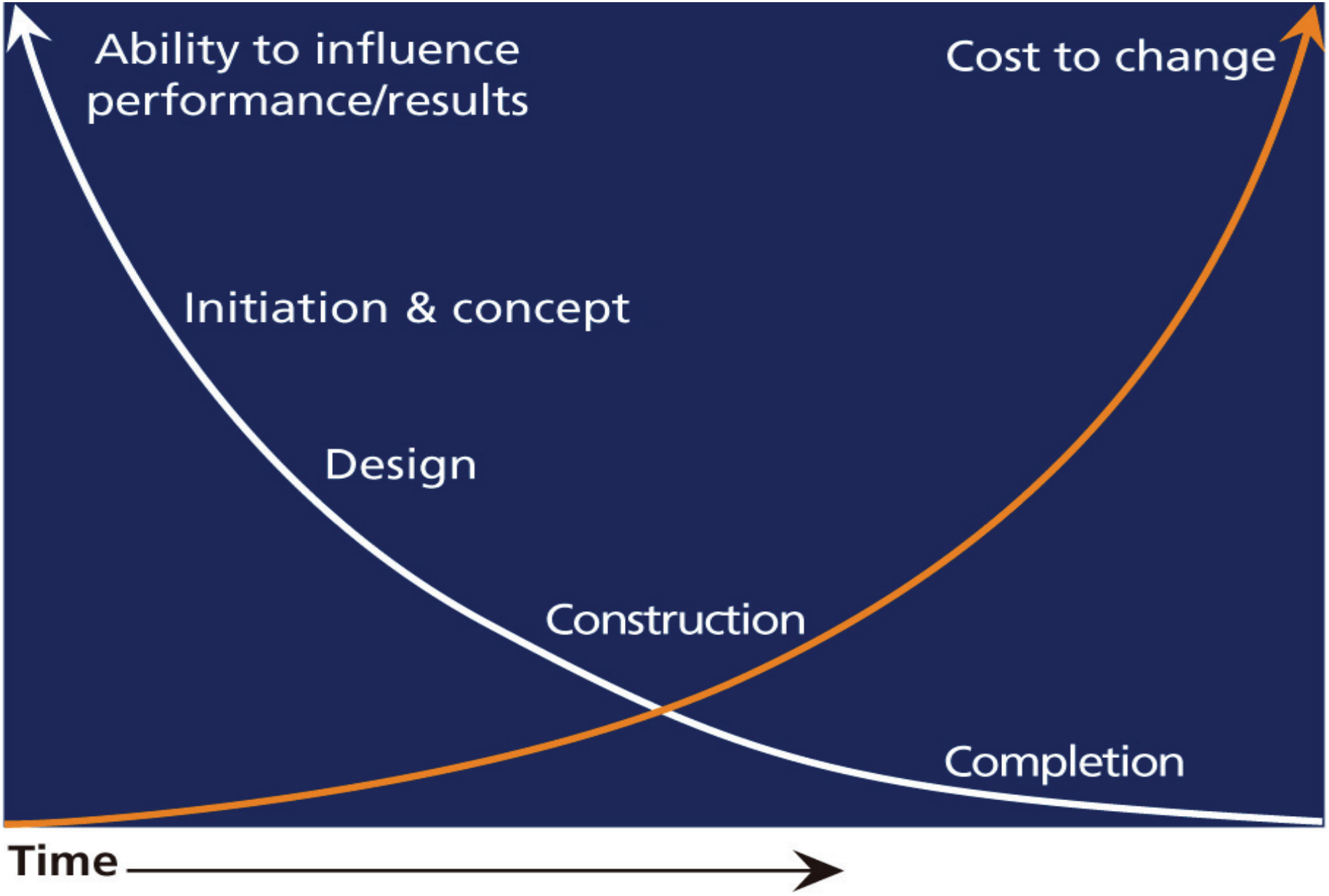
>7 Select
- Build own operate
- Build own operate transfer
- Alliancing
- Managing contractor
- Partnering

(Example from suitability matrix)

3-7 Select
- Project management
- Engineer procure and construct
- Novated design and construct
- Design and construct
- Document and construct
- Construction management

<3 Select hard $ strategy
- traditional lump sum

Project cost reduction opportunity



Benefits of relationship contracting

- Time
- Cost
- Risks
- Relationships
- Flexibility
- Technology/innovation
- Optimum standards

Risk allocation

- Equitable risk allocation is fundamental to success
- Nature and scope of risks must be evaluated
- Tenders should include risk allocation schedule
- Agreement then structured to reflect risk allocation
- Agreement relies on realistic and sensible expectations
- Agreement will fail if participants are not prepared to accept suitable risk

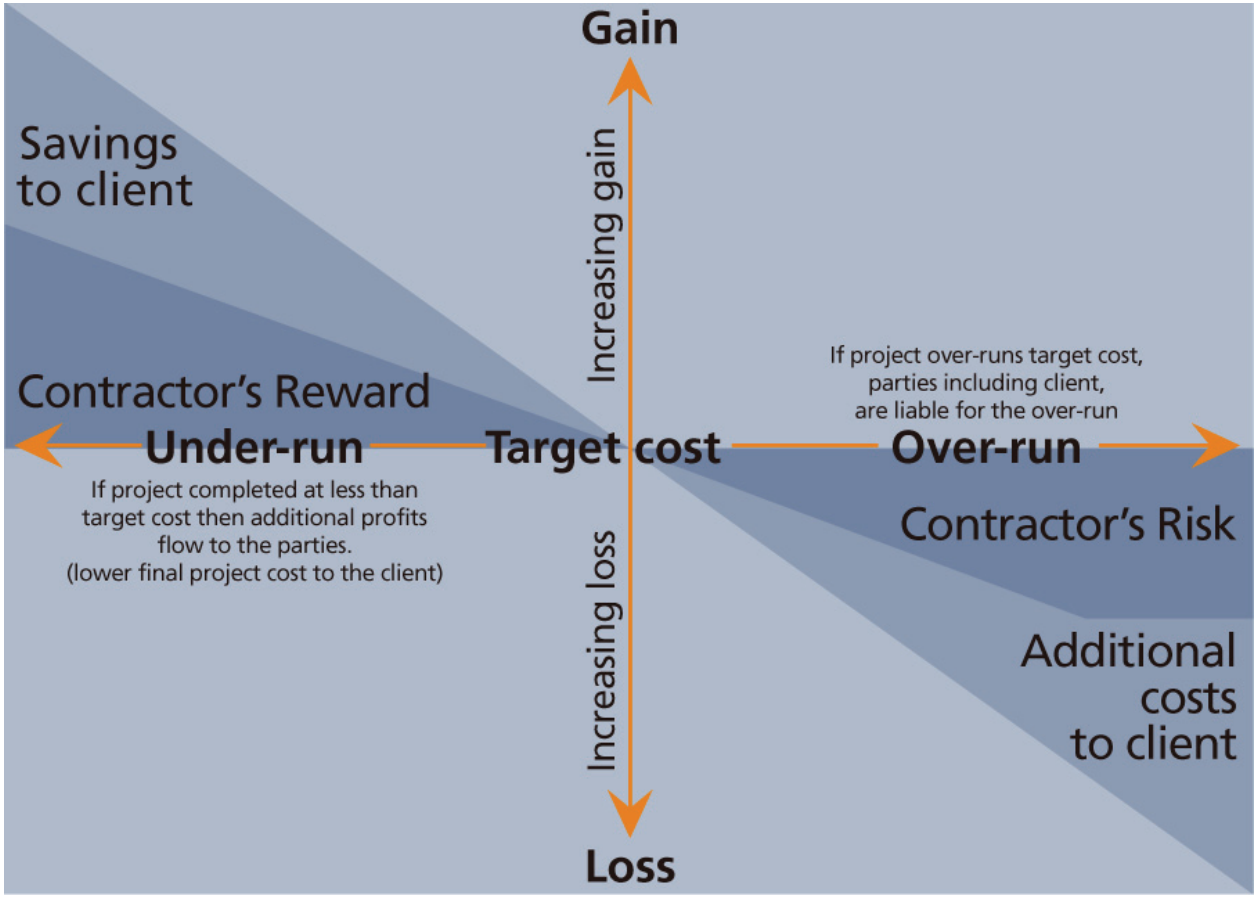
Integrated project team

- Integrated project team central to the concept
- Must contain senior, accountable members from each parties
- Eliminates traditional hierarchies
- Has responsibility and accountability to make key decisions
- Selection of team members must be based on commercial and technical competence
- Must put interests of the project first

Gainshare/Painshare

- Parties must be aligned through shared business (i.e. $) goals
- Parties will be motivated to question costs, pursue best value etc
- Used to establish Project Target Cost
- Profit of the parties reduced if Project Target Cost exceeded, and increased if savings are made
- Mechanism structure so parties win or lose together

Gainshare/Painshare mechanism



Techniques

- Planning
- Controls engineering
- Design co-ordination/integration
- Value engineering/workshopping
- Completion engineering
- Project alignment group
- Monthly reports
- Innovation
- Project review/audit
- Stretch targets

Summary

- Relationship contracting growing in popularity due to global construction boom
- Contractors and consulting engineers are in a stronger position to determine most suitable delivery method
- The key is the fair allocation of risk
- Hopefully it will become the standard way of delivering a project