

Alliance contract and procurement process for water & waste water services in Adelaide, South Australia

In partnership with the OECD Studies on Water: Stakeholder Engagement for Inclusive Water Governance

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Organisation: Allwater

Country: Australia

Level of government: Regional/State government

Sector: Environmental protection

Type: Organisational Design

Launched in: 2011

Overall development time: 2 year(s)

Link to the innovation's website

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Description

In 2011, after a procurement process of over two years, the Allwater Joint Venture (Transfield Services, Suez Environnement and Degrémont) and SA Water, the South Australian government-owned water utility, entered a ten-year operations and maintenance alliance contract for the provision of water and wastewater services in the city of Adelaide.

This alliance contract was conceived as a co-operative model aiming to better align the objectives between the parties involved. Differing from a traditional public-private partnership (PPP) contract, it relies on an integrated governance and team. It is based on the principles of sharing risks, profits and losses (win/win – lose/lose contract), transparency/“open book”, shared governance, no blame/no dispute, co-operation, and trust and co-construction upstream from the project. This reinforces the joint responsibility for delivering the works against predetermined performance targets.

The full benefits of an alliance can only be achieved with an adequate procurement process that stresses the alignment of objectives, co-construction, transparency, trust and cultural alignment, aimed at building acceptability and ownership of the project from the start. The procurement process emphasises leadership, and ownership plays an important role in the efficiency and success of the contract.

As a client, SA Water has reported its satisfaction with the relationship it has with Allwater, the value-added of initiatives undertaken by Allwater and the flexibility that the contract model has provided. Alliance contracting is reported to foster good governance and ensures progress of key operational performance indicators as well as a good budgetary control. It introduces significant changes of culture based on collaborating by focusing more on responsibilities, developing collaborative working relationships and creating a culture focused on achievement to improve business performances.

Why the innovation was developed

- In line with the national and local policy framework, the expected outcome of private sector involvement in public utility service provision is to create value for money.
- Difficult relations between the partners is one of the most frequent causes of failure of Alliance contracts. Therefore, the co-construction of trust, dialogue, cultural and objective alignment between the partners was set up beforehand, throughout a peculiar procurement process focused on individuals, team work and technical skills. The expected outcome is to build a long-lasting partnership based on open book transparency, trust and shared risks and collective responsibilities.
- The move from a long term management services contract to a long term outsourced services alliance was influenced by SA Water's desires to work collaboratively with the service provider, drawing on the strengths of both organisations; have access to all costs and asset data to respond to upcoming economic regulation; strategically revise the scope, particularly in relation to asset management; and have a flexible contract that can be modified to meet changing needs.
- In Suez Environnement, this alliance contract, the first of its kind to be awarded to the company. It had however been exploring new contract models, through the creation and consultation of a Foresight Advisory Council (FAC), a permanent international expert panel meeting twice a year since 2004, as well as 8 multi-stakeholder consultation sessions since 2007 called Stakeholder Sessions. Both mechanisms, among other subjects, fostered the reflection on embedding dialogue with stakeholders in the activities of the company.
- In South Australia as well as in the whole country, the use of alliancing is appropriate when it can be demonstrated that an alliance approach will deliver incremental value for money over other alternatives.
- The objective of this contractual model is that the parties work cooperatively to complete the project within the time and budget forecasts, to find the best solutions for the project (rather than for their own interests), and to work quickly and collaboratively to resolve issues as they arise. The National Alliance Contracting Policy and Guidelines were released in 2011 by the Ministry of Infrastructure and Transport following a reform initiative implemented by the COAG. The main principles promoted are: 1. Governments should ensure good public accountability and transparency and protect the public interest, 2. Achieve Value-for-Money in line with Business Case Commitments, and 3. Efficient and effective market engagement.
- In South Australia, the use of alliance contracting is subject to normal approval processes by the Department of the Premier and Cabinet and in line with the National Alliance Contracting Guidelines. For more information on the National Alliance Contracting Policy and Guidelines see: <http://www.infrastructure.gov.au/infrastructure/nacg/index.aspx>
- Government
- Service providers
- Water institutions at sub-national level
- Trade unions and workers
- Advisors

Results

Efficiency

- Cost-saving: The elimination of the need for resources to administer contractual activities (i.e. site surveillance, variation claims administration, resolving disputes, litigation) means that such resources can be refocused on achieving project objectives (improved use of resources).
 - Also focusing on finding the right person to fulfill the right tasks during the selection process is a cost-saving approach for when the contract starts. 20 months after its launch, the Adelaide alliance contract has “over-delivered on the cost savings and innovation, but has been slower to come up to speed on some of the detail issues”.
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Effectiveness

- Broader economic development: Alliance contracting fosters good governance and ensures progress of key operational performance indicators as well as a good budgetary control. It introduces significant changes of culture by focusing more in responsibilities, developing collaborative working relationships and creating a culture focused on achievement to improve business performances.
 - Sustainability/resilience: This collaboration on strategy and sharing skills and expertise provides a more flexible approach to water management at a metropolitan scale, which is a key factor to adapt to future changes.
 - There is an improved ability to manage risks, such as material changes to the project and uncertainty, due to a shared responsibility and incentive for all participants to be proactive in mitigating and/or managing risk; and collaboration between more pools of resources. Also, since the selection process there is capacity building to face unexpected situations or costs, which is also a rationale for building a flexible contract.
 - Capacity-development: The drafting of the contract required the involvement of many stakeholders which meant training on the topic beforehand. This was an opportunity for capacity development for SA Water and its project team as they were trained and prepared in alliance contracting, participated in workshops and visits, undertook benchmarks and risk analysis in order to prepare for the selection stage.
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Service quality

Accessibility:

- Acceptability/ownership of stakeholders involved: The full benefits of an alliance can only be achieved with an adequate procurement process that stresses the alignment of objectives, co-construction, transparency, trust and cultural alignment, aimed at building acceptability and ownership of the project since the beginning.
- The procurement process made emphasis on leadership and ownership which has eventually played an important role in the efficiency and success of the contract. The alliance “culture” created by the participants (SA Water and members of the consortium) during the selection process underpins the joint decision-making process and the commitment to “no fault-no blame” principle, open book transparency.
- In addition, a joint-governance structure fosters acceptability and ownership of the stakeholders involved as risks and benefits stemmed from joint decision making are shared. As a signal of ownership, we can mention cooperation going beyond the contract boundaries as when SA Water staff helped with a major pipe burst on New Year’s Eve 2011, despite it being squarely Allwater’s problem as a metropolitan issue. Or when Allwater experts have a look at challenging Port Pirie wastewater treatment plant, despite it being 250km outside its boundaries.

Responsiveness:

- A post review of the procurement process was held by SA Water and the lessons learned noted. Feedback was also sought from the two proponents.
- Particularly pleasing was their feedback that the process was fair and probity was maintained throughout. Various external reviews of the procurement process were held which found the process followed was sound.

Other:

- Transparency: The pricing of the project, including all contingencies and allowances for risk, is transparent, giving the owner greater confidence in the robustness of the budget and its achievability.
- Reputation: an enhanced reputation if the alliance is considered to have performed well.

Development

Design

In the operation of the Alliance, the promoters are the parties involved in the contract: SA Water and the Allwater Joint Venture made up of Transfield Services (Australian-based provider of operations, maintenance, asset management and project management), Suez Environnement and Degremont.

As aforementioned, Suez Environnement is interested in engaging in innovating governance contracts in order to embed dialogue and stakeholder engagement practices in its operation activities. Transfield Services, the Australian-based partner, already had experience in this kind of contractual model.

Testing

- No methods were used to test the innovation.
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Implementation

Tools used:

- During the procurement process: in 2007 the project team within SA Water was created in order to lead the scoping work and reflection on better options to improve the relation with the private sector.
- This internal process entailed: 50 interviews and a general workshop with internal stakeholders to define the main guidelines.
- In 2008, 20 theme-based internal workshops in the project's topics helped define the scope of the project and its management specifications, as well as a definition of the performance indicators and procedures to apply in the future contract.

Resources used:

- The cost of the procurement process was funded by SA Water. A separate project team was established for the duration of the procurement and staffed by internal resources and a small group of external advisers.
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Challenges and solutions

- A greater level of transition planning was needed being an entirely new contract form and scope, with far-reaching impacts on SA Water's business units.
- Significant efforts were required in order to develop a convincing business case and to prepare the contract. The main challenges during the transition were establishing effective internal processes and recruiting staff.
- SA Water conducted a risk-based assessment on the proponents bids to determine which offered the better value, in order to gain the understanding, support and approval by the state government. SA Water also involved the Crown Law fully in developing the Alliance contract thereby ensuring it met their specifications insofar as possible.

Lessons Learned

Lessons Learned

- It is essential that the client and the contractor share a common vision and objectives on the service in order to build a better governance of water and wastewater services. For this, the selection process is a key stage to build and reinforce trust beforehand.
 - In order for authorities to choose freely the management model that is fit for its context, it is necessary that public and private bids rest available and comparable.
 - The role of civil society and consumers is difficult to integrate and must be taken into account in order to complete stakeholder engagement.
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Conditions for success

- From start to finish, it has been conducted by an extremely mature public authority, unhindered by ideology and looking for a high standard service for its city. The previous outsourcing experience allowed the public authority to objectively analyze other options, permitting it to move on to a new partnership with a major international group.
 - The authority transformed its experiences into a methodological and professional partnership development process with the aim of succeeding in putting in place its public service vision. It also succeeded in contractually expressing the commitments defined during this same process.
 - Other conditions include the introduction to the notion of a sustainable contract, and the continued presence of the identified resource persons (within both partners) is essential to ensuring success.
 - The embedding of "Risk management" in the procurement process: All of the technical and human criteria were subject to a risk analysis. The level and the costs of these risks were then assessed (acceptable or not acceptable).
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Other information

Alliance contracting is suitable to most contractual situations (municipal /state or industrial client, operation or construction contract, etc.). This arrangement offers substantial benefits for the procurement of high-(financial) risk projects, complex engineering projects, and when competition is limited. On the contrary, projects with inflexible completion deadlines, such as most PPPs or new or high-risk technologies, are unlikely to be suited to an alliance approach where a project financing is planned.

Alliance contracts are best fit for:

- when the project size is >30 million €
- when the complexity of project is high
- when it is imperative to achieve project completion in the shortest possible timeframe in order to deliver community travel time and safety benefits as soon as possible