



Infrastructure investment Forum 2014: Is public-private partnership likely to see a breakthrough? Hotel Radisson Blu Lithuania, Vilnius 23.10.2014

# **Project Alliancing – New Platform for Efficient Solutions; Finland's experience**

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# Project Alliance Definition

*A Project Alliance is where an owner and one or more service providers (designer, constructor, supplier etc.) work as an integrated team to deliver a specific project under a contractual framework where their commercial interests are aligned to the actual project outcomes.*

*In an Alliance all the Parties*

- Assume collective responsibility*
- Take collective ownership of all risks*
- Share in the “pain” or “gain”*



# Short history of Alliance Contracts

- First developed for British Petroleum in early 1990's for oil resource projects in North Sea
- Australia's first Alliance in the oil industry in mid 1990's and since that over 400 Alliance Projects
- Sutter Health's leading role in USA in developing Integrated Project Delivery Methods (IPD) and Lean Construction
- Probably the most successful integrated project delivery: British Airport Authority's (BAA) Heathrow T5 Project Management Agreement
- First Project Alliances by Public Procurement in Europe: Finnish Transport Agency and University of Helsinki
- In Finland more than 20-25 projects under way based on Australian Alliancing and lean construction philosophy adopted from USA

# Why Alliances?

**Rapid escalation of cost and  
time schedules**

**Stakeholder demand  
increasing**

**Changing client needs**

**Industry capacity**

**Increasing regulatory demands**

**Inappropriate contracting  
strategies**

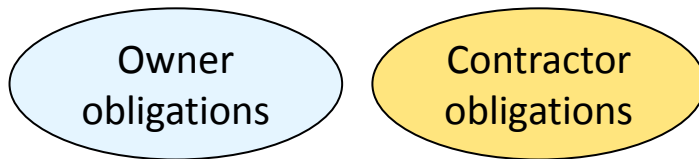
**Skill shortage**

**Staff relation issues**

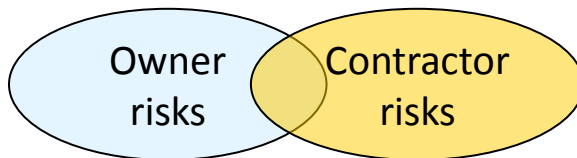


# Risk Transfer > Risk Sharing

## Traditional Contracts – Risk Transfer



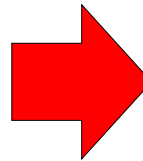
Each party has and must fulfil its own separate / individual obligations



## Project Alliance – Risk Sharing



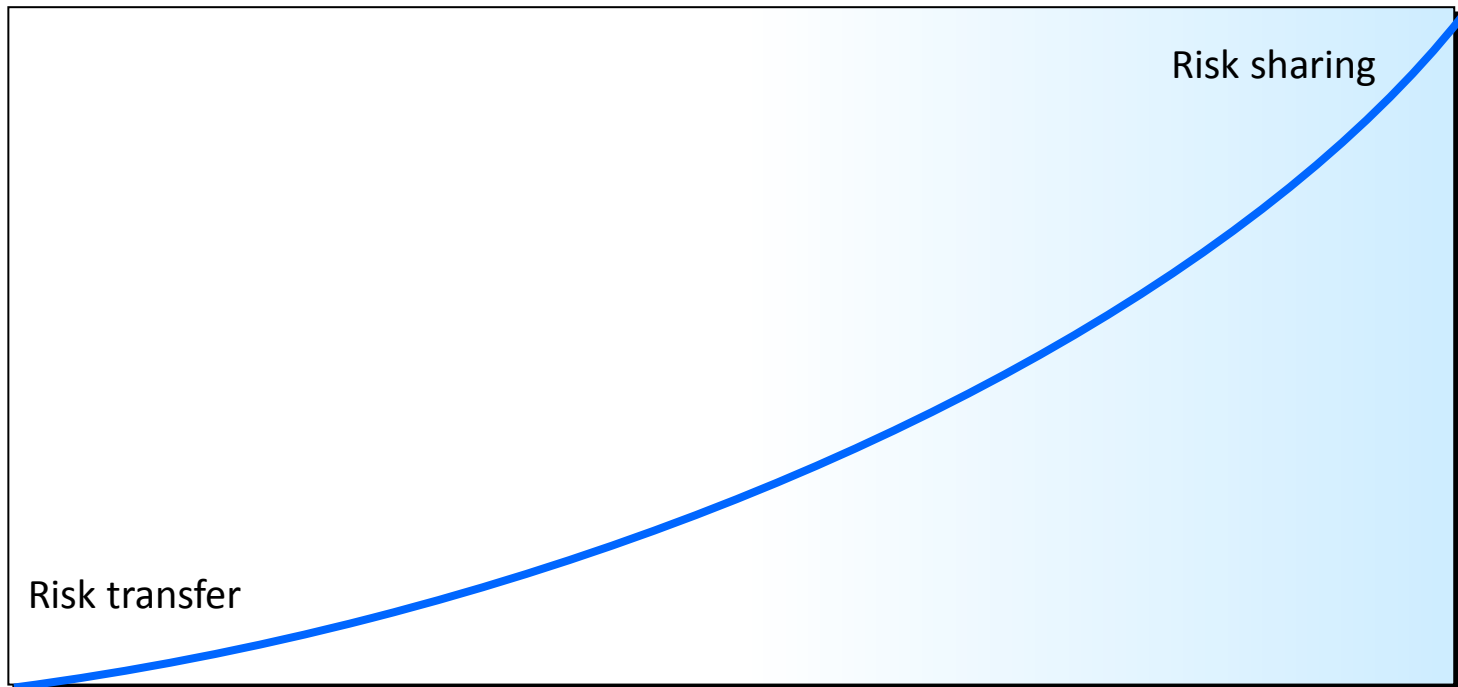
Nearly all obligations are collective.  
Some individual obligations  
(e.g.. Owner's obligation to pay)



# Suitability of Project Alliancing

Not suitable

Most suitable



## Traditional Project Delivery

Fixed design

Managed risks / opportunities

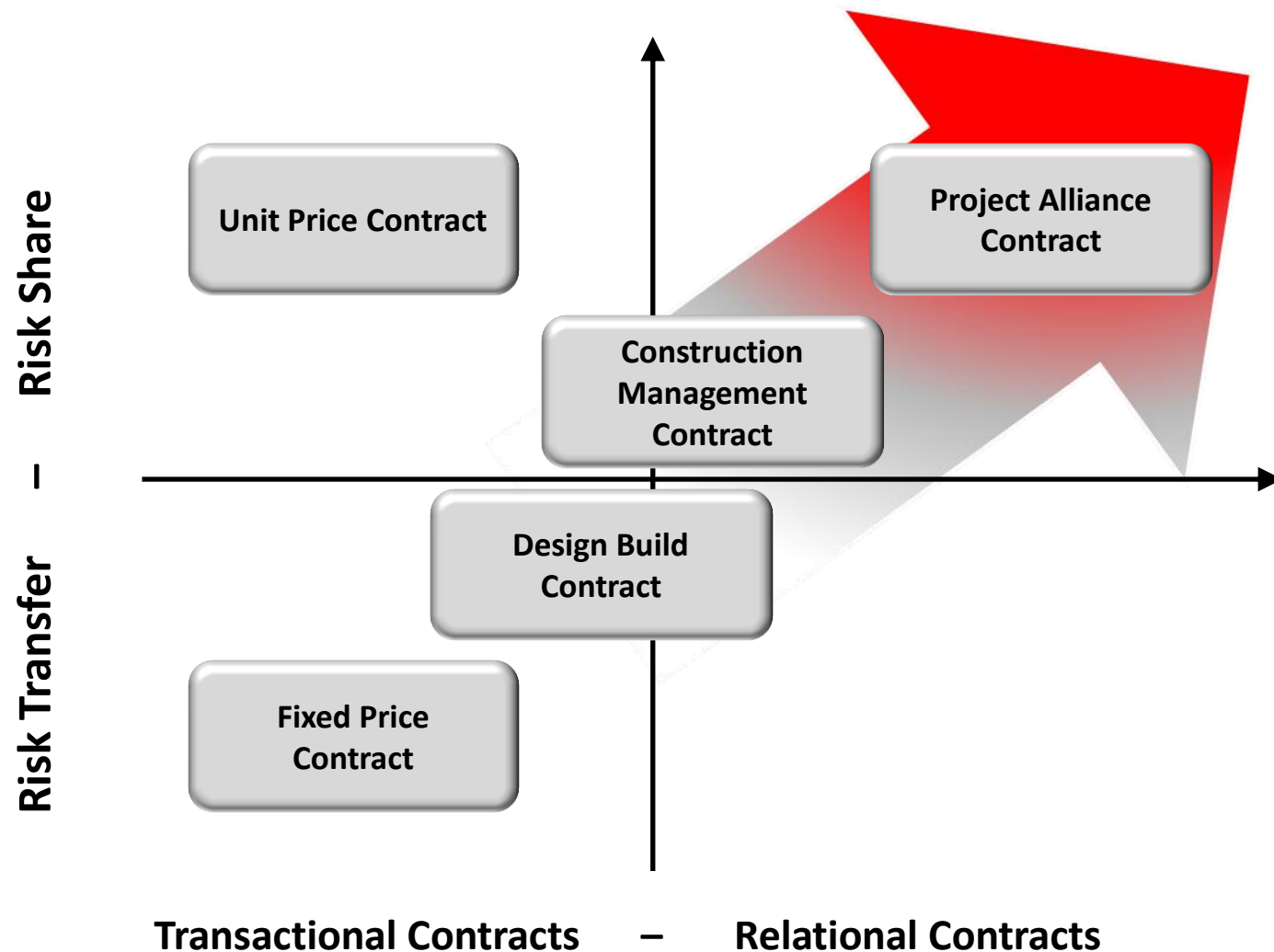
## Integrated Project Deliveries

High complexity

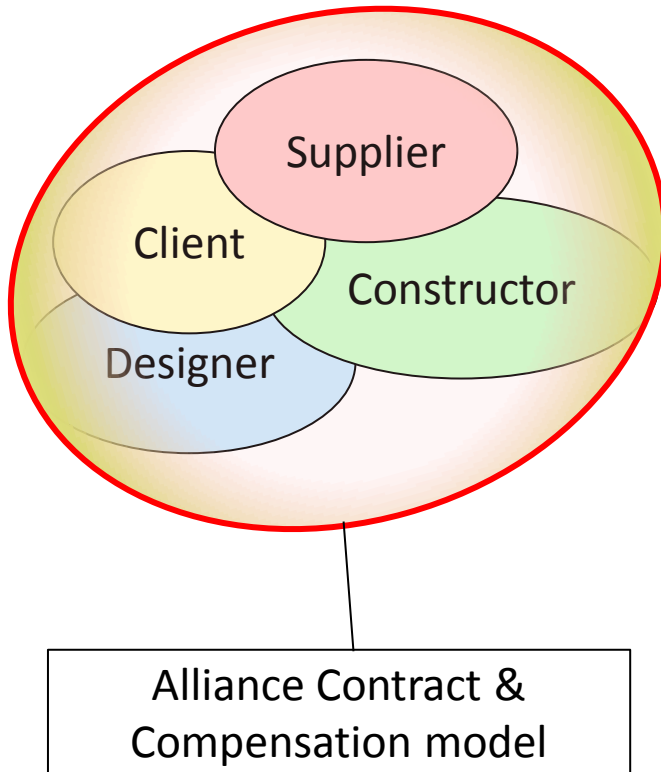
Unpredictable risks / opportunities

Owner can add value by being involved

# Features of Project Delivery Models



# Elements of Project Alliance



- ✓ Early involvement
- ✓ Joint organization
- ✓ Shared objectives
- ✓ Shared risks and rewards
- ✓ Alliance contract
- ✓ Commercial compensation model
- ✓ Fully open-book commercial transactions
- ✓ Commitment on continuous improvement to achieve outstanding outcomes



# Alliance Contract Principles

1. All parties either win or all parties lose together
2. Equitable sharing of risk and reward
3. All parties have an equal say
4. All decisions must be "best-for-project"
5. Commitment on continuous improvement to achieve outstanding outcomes

Open books, General Terms and Conditions are not valid



# Traditional vs. Project Alliance Agreement

## Traditional

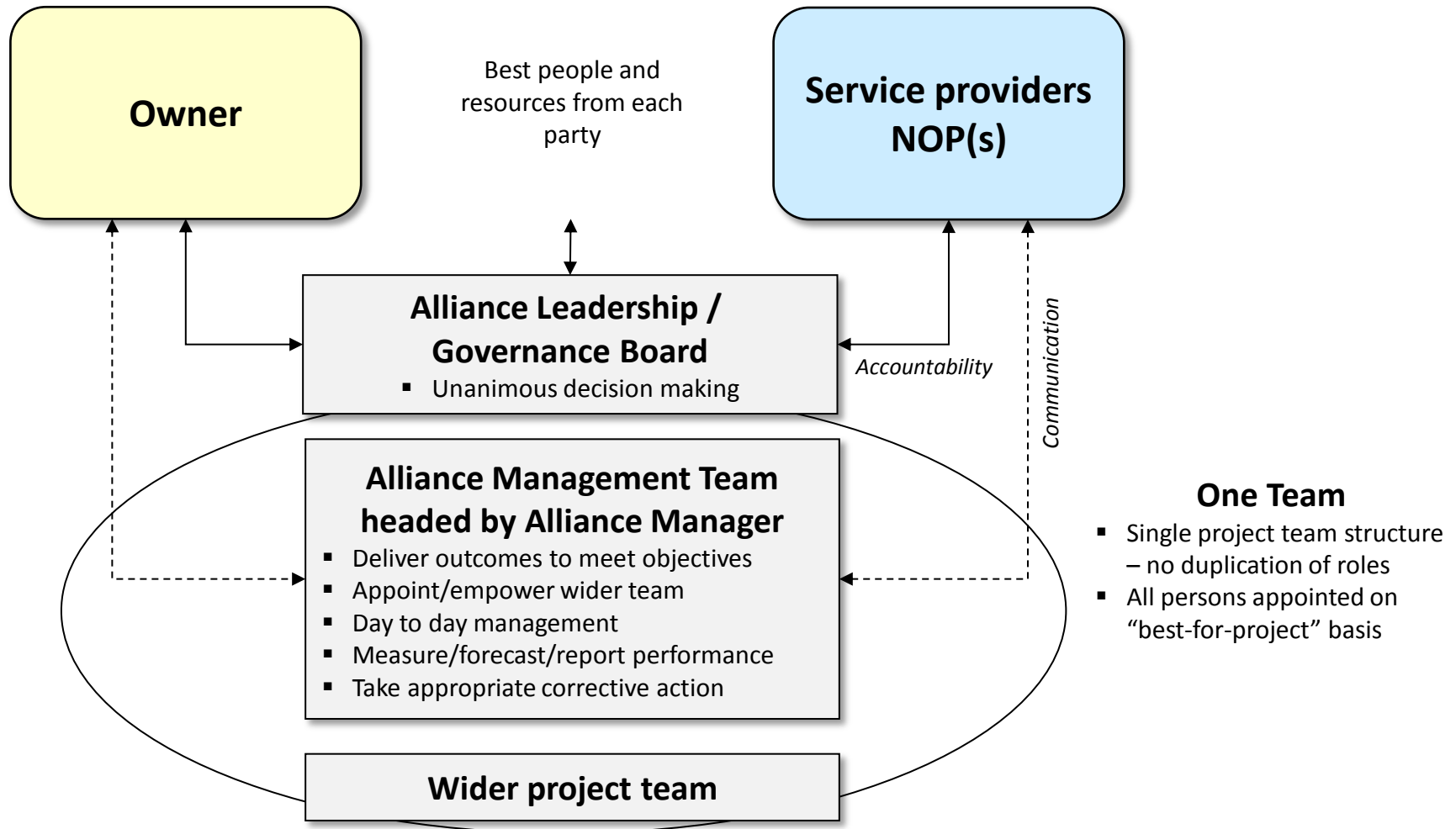
- The contractor shall execute and complete the work under the Contract in accordance with the requirements of the Contract
- The Contractor acknowledges and agrees...that the Contractor will bear and continue to bear the full responsibility in accordance with the Contract for the execution and completion of the work under Contract...

## Alliance

- We will work together in an innovative cooperative and open manner so as to produce outstanding results...
- We will share all risks and opportunities associated with the delivery of the Program except those which we have specifically agreed will be retained solely by the Owner...
- We will collectively do all things necessary to deliver the Work under the alliance in accordance with our commitments...

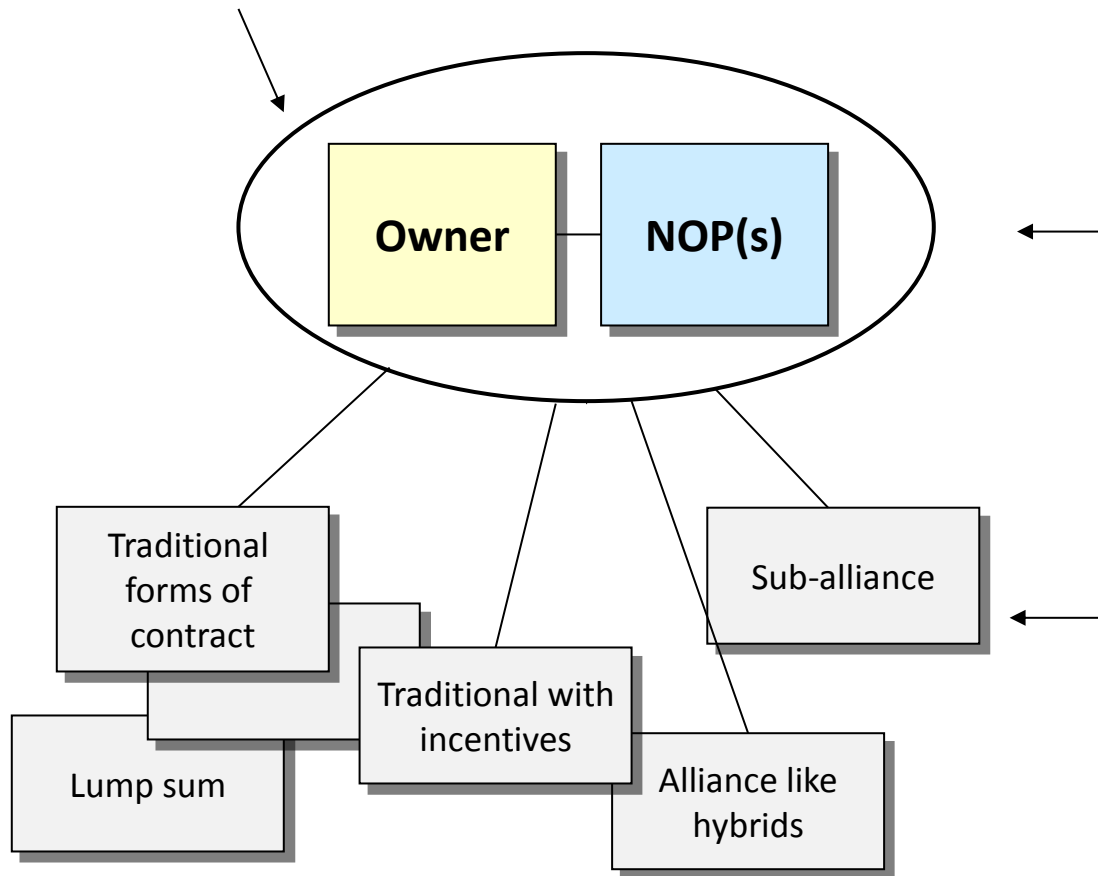
PAA = Project Alliance Agreement

# Alliance Project Organization



# Sub-procurement Management

The Alliance comprising owner plus one or more NOPs



Alliance Participants collectively responsible for full delivery of the project to meet or exceed the pre-agreed project objectives

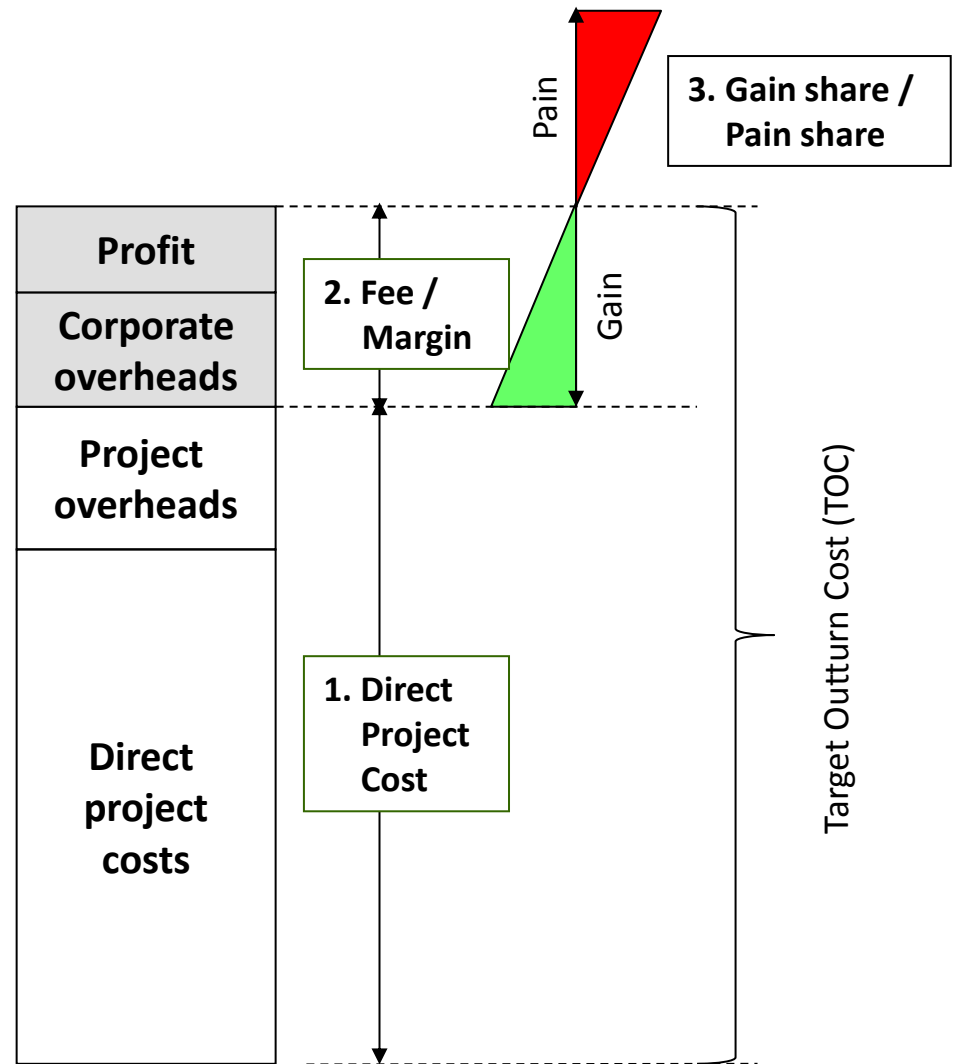
The alliance must decide the most appropriate contracting strategy for each

Regardless of contract model:

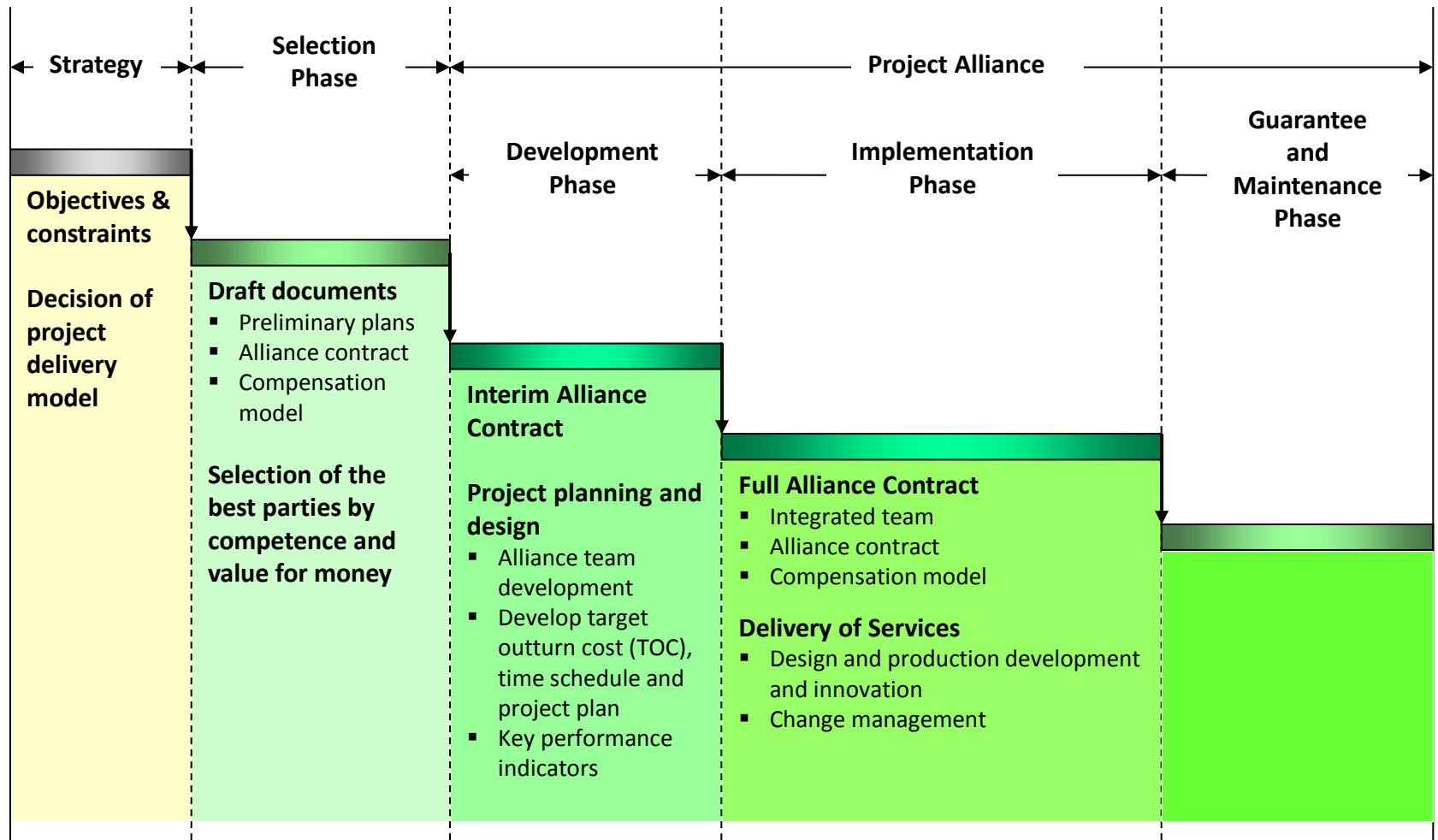
- Value based selection
- Focus on driving behaviours that fully support project objectives

# Commercial Compensation Model

- **Part 1: Direct Project Costs**  
will be paid in all cases and even in a worse case scenario.
- **Part 2: Margin / Fee**  
fixed and pre-agreed and paid on top of direct project costs
- **Agreed Target Outturn Cost (TOC) =**  
Direct Project Cost + Margin / Fee
- **Part 3 Risk / Reward arrangements**  
sharing ratios are agreed in advance and set out in detail in the PA contract
- Gain share / Pain share is usually limited such that contracting party can lose its Margin / Fee but no more.



# Phases of Project Alliance



Source: Jim Ross, Alliance Contracting, lessons from the Australian experience, LIPS-conference in Karlsruhe 9.-11.12.2009

# Selection of Service Providers

**Selection of most suitable parties to build up an integrated team with an owner / client to design and execute project to reach owner's targets and high performance**

## **Process**

- Competitive tendering process
- Non cost selection criteria

## **Selection criteria**

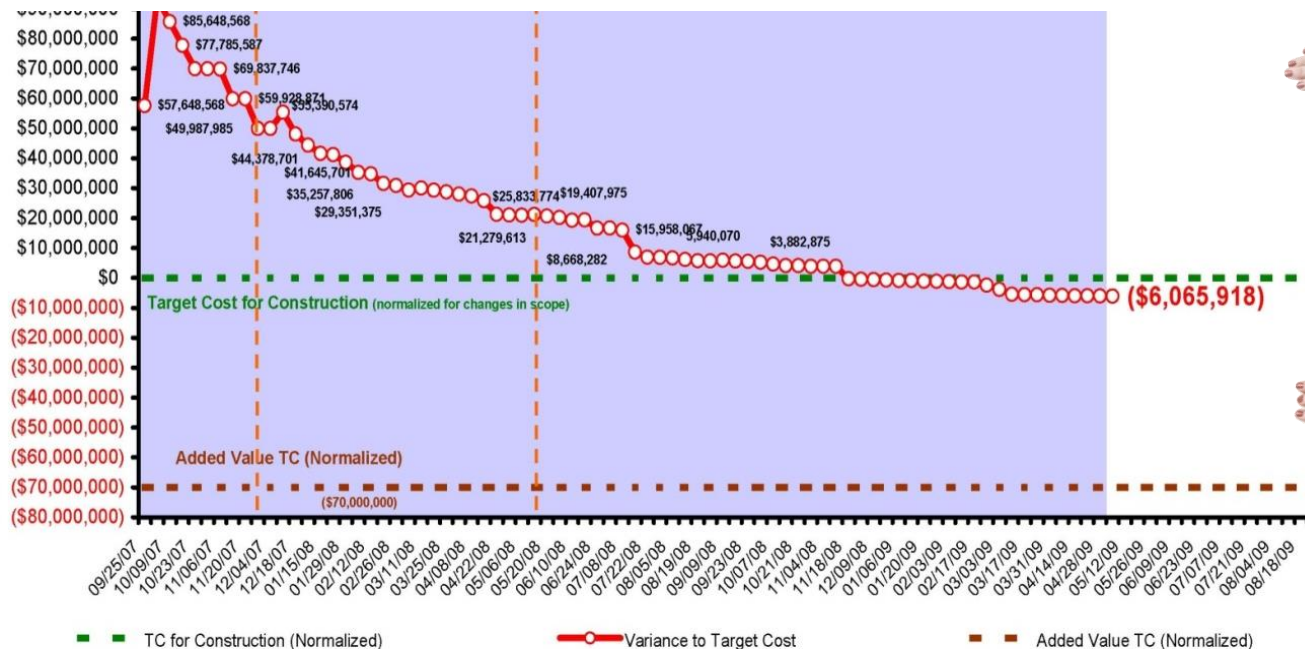
- Technical, financial and management capacity
- Understanding and commitment to the Alliance way of doing business
- Preliminary ideas on innovations and execution strategies plus the potential to deliver outstanding design and construction outcomes
- Margin / Fee (percentage / euros)

# Target Value Design



CPMC Cathedral Hill Hospital  
TARGET VALUE DESIGN CLUSTER GROUP WEEKLY UPDATE

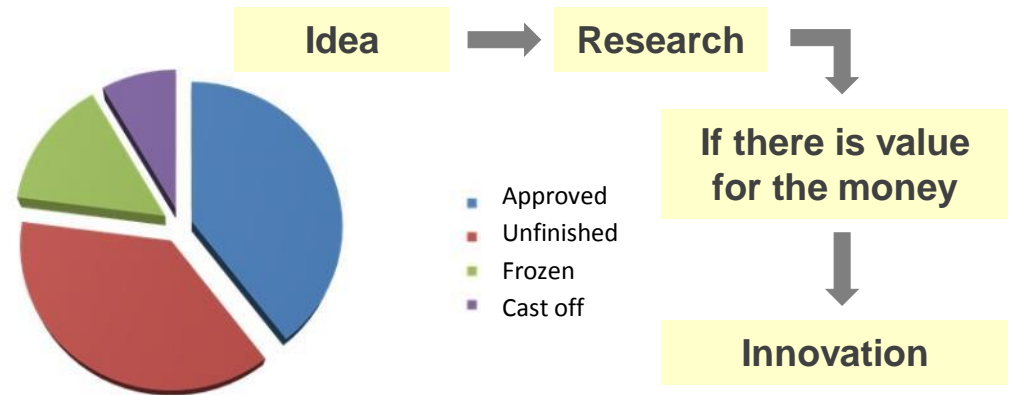
The target cost becomes an influence on design and decision-making rather than an outcome of design.



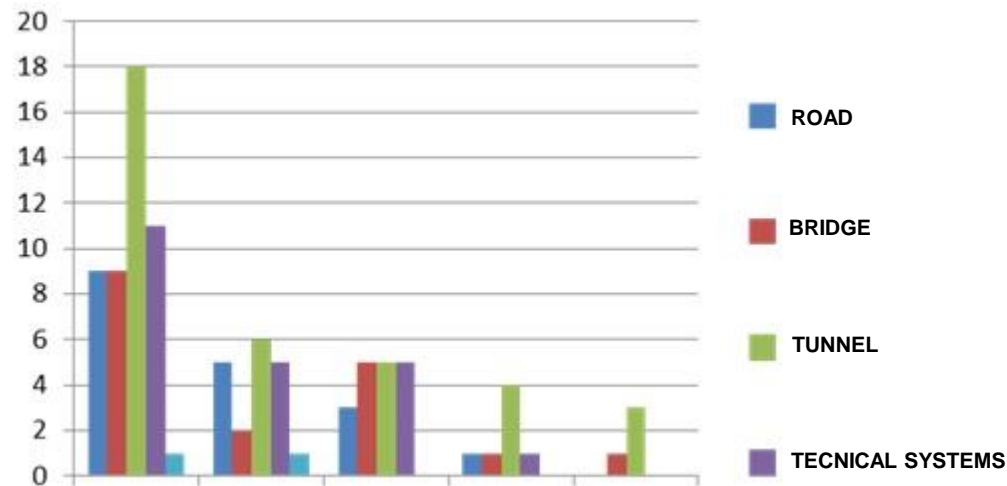


# Lessons learned in Tampere

- Clear evidence of innovation promotion
- Explode the ideas and innovations systematically
- Direct costs and fees will always be paid for the service providers
- We can plan and prepare right things in the right time → Time table is not stretching because of the changes
- One and only Big room is better
- Rather workshop than meeting



**More than 50 ideas → More than 20 innovations**



**Technology groups takes responsibility to explode the ideas**

# Big Room Concept

**Shared workspace for all parties**

**Cooperation and collaboration**

- Owner + designers + contractors + suppliers
- Stakeholders
- Information and data sharing

**Building of Trust**

- Open books
- Transparency

**Commitment on continuous improvement**

- Last planner
- Target value design etc.

**Best for the project**

**Value for a money**

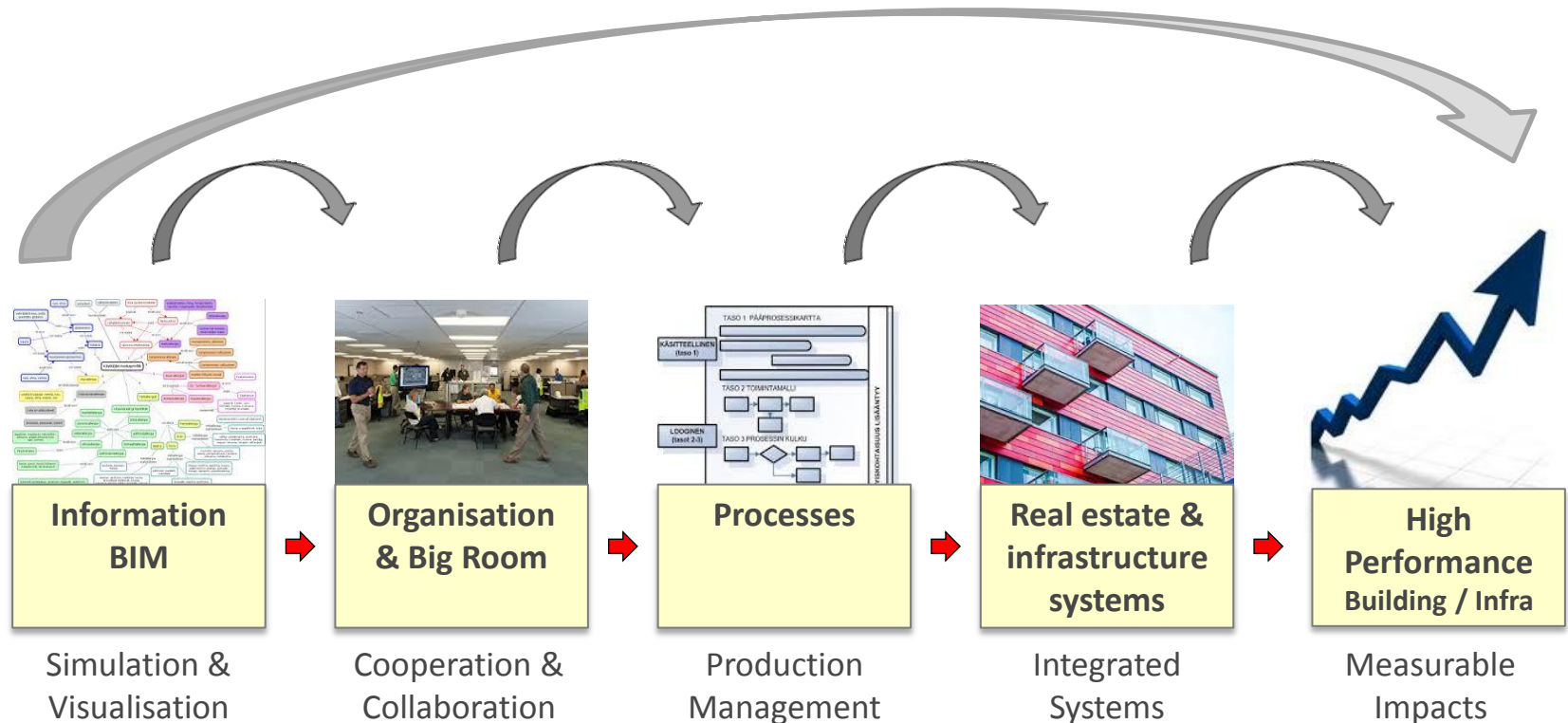


# Benefits of Project Alliancing?

- Flexibility
- Better able to handle uncertainty & change
- Contain/reduce cost – in complex/volatile situations
- Better manage complex stakeholders environment, health, safety etc.
- Add value through owner involvement
- Control while still getting the benefits of outsourcing
- Win or lose together

# High Performance Building / Infrastructure

Information - resources – processes - technology



Integrated contracts – Integrated commercial model – integrated action plans

# Project Alliances in Finland

Project		M€	2010				2011				2012				2013				2014			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Tampere-Pori Railroad Renovation, Finnish Transport Agency	100																				
2	Vuolukiventie Residential Housing Renovation, University of Helsinki	18																				
3	Tampere Tunnel Project Alliance	180																				
4	Helsinki Airport Maintenance Contract <sup>1)</sup>	20																				
5	National Institute for Health and Welfare Head Office, Senate Properties <sup>2)</sup>	18																				
6	Järvenpää City Hospital Project Alliance	50																				
7	Franzenia Project Partnering Renovation, University of Helsinki <sup>3)</sup>	6																				
8	Lahti Transport Terminal Project Alliance	19																				
9	Pakila Maintenance Contract, City of Helsinki	6																				
10	Retkeilijänpolku Rental Residential Housing Project, Fira Ltd <sup>4)</sup>	10																				
11	Gunillankallio Rental Residential Housing Project Alliance, Seafarer's Pension Fund	10																				
12	Nuclear Safety Building, National Research Centre, Senate Properties <sup>2)</sup>	30																				
13	Jyrkkälä Suburban Renovation, Jyrkkälänpolku Real Estate	20																				
14	Joensuu Justice and Police Station Project Alliance, Senate Properties <sup>2)</sup>	30																				
15	Naantali Power plant Project Alliance	50																				
16	Administration Building Renovation, University of Helsinki	18																				
17	Kainuu Central Hospital Project Alliance	120																				
18	Highway 6 Taavetti-Lappeenranta renovation, Finnish Transport Agency	100																				
19	Kempele Medical Centre	14																				
20	Kotka Police Headquarters, Senate Properties <sup>2)</sup>	20																				
21	Hiukkavaara Community Centre, City of Oulu	24																				
22	Tampere Tramway / Infra <sup>5)</sup>	240																				

Strategy

Selection of partners

Development

Implementation

Maintenance

<sup>(1)</sup> Integrated contract, <sup>(2)</sup> Senate Properties Alliance Model, <sup>(3)</sup> project partnering, <sup>(4)</sup> Design-Build agreement, <sup>(5)</sup> infrastructure / rail design and construction



VALUE FOR MONEY FOR  
PROFESSIONALS