

## Question on Notice

No. 478

Asked on Tuesday, 15 April 2008

**Miss Simpson** asked the Deputy Premier and Minister for Infrastructure and Planning (Mr LUCAS) –

QUESTION:

How much contingency and risk was built into each of the alliance contracts for the SEQ water grid and its bulk projects, in percentage and dollar terms, and how much have contractors had in windfall profits from savings from the contingency and risk moneys which were not spent on the contracts?

ANSWER:

I thank the Honourable Member for Maroochydore for her question.

This government has chosen the Special Purpose Vehicle (SPV) model to deliver the major infrastructure forming the South East Queensland (SEQ) Water Grid. This model provides rigorous governance, effective management and efficiency in delivering the SEQ Water Grid.

The SPV's procurement model has been the Alliance project delivery model. By using the Alliance delivery model, SPV's have successfully advanced development of the water grid, whilst allowing risk to be managed collectively on a 'best for project' basis.

The Alliance project delivery model is being used successfully across Queensland and interstate to deliver key infrastructure and is a well established contracting model.

In April this year the Bundamba Advanced Water Treatment Plant, constructed using the Alliance project delivery model, was named the "Water Project of the Year" at the Global Water Awards in London. This treatment plant and the Alliance project delivery model employed to build it, have now been recognised globally as an outstanding achievement. Additionally, at the 2008 Infrastructure Partnerships Australia awards, the Southern Regional Water Pipeline Alliance won the "Contractor Excellence" award.

Other key infrastructure projects successfully delivered in Queensland using the Alliance project delivery model including the \$333 million Inner Northern Busway, \$210 million Brisbane Inner City Bypass and the \$106 million Awoonga Dam Raising & Infrastructure Relocation Project in Gladstone.

Another example of the success of the project alliance model is the construction of the Port of Brisbane Motorway, Stage 1. In 2002, The road was delivered six months ahead of schedule and \$20 million under budget. Additionally, the alliance framework delivered a road with greater functionality, quality and aesthetic value than was contractually required.

Alliance contracting delivers excellent outcomes for major infrastructure works, the Queensland taxpayer, and the local community.

Industry and governments are increasingly becoming aware of the benefits of alliance contracting, and I am happy to school the member for Maroochydore on these matters to bring her up to speed.

For government and industry alike, alliance contracting offers a myriad of advantages over the traditional principal contractor relationship of project owner and project contractor. It effectively taps the combined knowledge, expertise, and inventiveness of all parties, allows for better transparency and information sharing between those concerned, and most importantly, this underlying commercial alignment is consistent with and advocates for a 'best for project alliance' philosophy that focuses all parties on achieving common objectives, so as to attain a 'win-win' result.

As the Alliancing Association of Australia states; *“Project alliances have a quasi perfect track record of success in delivering very complex projects, most of the time before time and below budget. The success of project alliancing is most evident in Australia and New Zealand where this type of client-contractors alliances has made possible the successful completion of a number of difficult projects which most likely would not have been achieved without the synergies, innovation and shared unconditional commitment to the goal that these alliances have created. The experience gained from these projects has yielded a thought leadership that has delivered many best practices and innovations for infrastructure project alliances which have become a model for the rest of the world.”*

Furthermore, the Australian Constructors Association state that; *“ACA believes that relationship contracting offers clients and contractors a framework through which project outcomes can be improved to the benefit of all stakeholders”*

The use of the Alliance project delivery model has allowed the Government to work closely with its project partners to progress the planning, design and construction of the SEQ Water Grid projects within the Government's announced timeframes. The Alliance project delivery model has allowed the SPVs to effectively engage with the preferred delivery parties to achieve seamless coordination of all aspects of delivery for the SEQ Water Grid projects, including site preparation, detailed technical design, project budget development, long lead time item procurement and effective coordination of construction and delivery activities.

The level of risk contingency factored into target outturn costs (TOCs) vary depending on the individual circumstances of each project and is calculated on a contract by contract basis depending on many variables including the project location, design complexity, extent of new construction technology applied, availability of key components and the nature of construction activities undertaken.

The Alliance Project delivery model creates a true partnership between the Alliance and the state so that all parties take collective ownership of all risks associated with delivery of the project.

The quantity of risk contingency and risk sharing arrangements between the Alliance partners and the state is a commercial issue between these parties. The confidential commercial nature of this information would preclude its release while the contract or associated contracts are currently being delivered. I will upon completion of the project, make available the cost performance against target and how any savings were dealt with.

To describe payments to the Alliance partners as a windfall profit shows a distinct lack of understanding of the procurement and construction process and significantly devalues the hard work of the Alliance partners working to drought proof South East Queensland.

The Government's drought response strategy is on target and this is a monumental achievement due in large part to the efforts of the Government's contractor partners, including the numerous project alliances. The ongoing effort and professionalism of the Government's contracting partners will be crucial in terms of ensuring that all SEQ Water Grid projects remain on schedule and on budget.

This is in stark contrast to major projects initiated under the opposition when they were in Government, such as the M1 motorway. In this case the opposition set unrealistic timeframes resulting in hurried and hasty planning decisions which then resulted in major variations causing cost blow outs.

The Alliance Project delivery model for the SEQ Water Grid puts the past infrastructure delivery efforts of the Queensland opposition to shame. The Bligh Government's practical approach ensures risk is allocated equitably and managed effectively, it gives more certainty with regards to project timeframes, and minimises the difference between target and actual costs. This ensures that projects are delivered with efficiency and ensures maximum value for money.