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# Contractual Arrangements for Private Sector Maintenance Services in PIARC Countries

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## Source of Information

**TC A.2 sourced data to form its view from a number of sources;**

- Questionnaires were sent to all TC A.2 members.
- TC A.2 members hold considerable knowledge of methods being used in a number of countries.
- Literature research.



# History of Private Sector Road System Maintenance Delivery

- The private sector has been involved in the delivery of road maintenance services for many years.
- In most countries, the type and complexity of tasks delivered by the private sector has evolved over time.
- As the complexity and levels of risk involved in the delivery of the services have evolved, so has the variety and complexity of contractual arrangements used to procure those services.



# Evolution of Contractual Arrangements – Schedule of Rates & Cost plus Contracts

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- At the lowest level of complexity and risk, the private sector is engaged to provide labour, plant and equipment to undertake well defined tasks.
- Payment for these services may be calculated using measured work completed or effort input.
- Most countries have well developed contractual arrangements that are used to deliver services in this manner.



# Performance Specified Contracts

- During the 1990's, a number of countries introduced Performance Specified Maintenance Contracts.
- Under these arrangements, the road authority specifies the performance criteria of the services and the private sector receives payment to provide those specified services.
- These arrangements are usually for significant periods of time – contract terms of 7 to 10 years are common.
- Under these arrangements, the private sector carries the risk for the decisions on what to do to achieve the specified outcomes.



# Managing Agent Contracts

- In these arrangements, the private sector operates as if it is the owner of the road system.
- In Managing Agent Contracts, the private sector delivers all of the services required to manage the network.
- The same company that performs the management tasks may also delivers the on ground works.
- Under this arrangement, the road authority defines the outcomes without specifying how they are to be achieved.



# Relationship Contracts

## 1 - Alliances

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- A recent innovation is Maintenance Alliances.
- An Alliance is an arrangement where an owner and one or more private sector providers work as an integrated team to deliver the services under a contractual framework where their commercial interests are aligned to the desired outcomes.
- In an Alliance, the parties;
  - Assume collective responsibility for their actions.
  - Take collective ownership of all risks.
  - Share in the pain or gain of the decisions and actions of the team.



# Alliance Principles

- All parties either win or all parties lose.
- Equitable sharing of risk and reward.
- All parties have an equal say.
- All decisions must be 'best for network'.
- No blame culture.
- No recourse to litigation.
- All commercial transactions are fully open-book.
- Encouragement of innovative thinking with a commitment to achieving outstanding outcomes.
- Open and honest communication.





- Visible and unconditional support from top management levels of all parties.
- Day to Day management by a seamless integrated management team (all decisions are made on - best for network - basis).
- Resolve all issues within the Alliance with no recourse to litigation.



# Procurement Phases of Alliance Contracts

Utilises a three phase process.

1. Selection of Preferred Partner.

2. Interim Alliance.

3. Full Alliance.



# 1st Phase – Selection of Partner

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The most important task for the road authority to achieve a successful Alliance is to choose the right partner.

This phase (partner selection) has 2 steps:

1. Non Cost Criteria.
2. Commercial Criteria



## 2<sup>nd</sup> Phase – Interim Alliance Agreement

- Finalise the details of the contractual arrangement.
- Develop a target works program – within available funds.
- Agree on the system and procedures to be used.
- Alliance team development.
- Private sector partners usually paid actual direct costs – no margin.
- If interim Alliance phase is successful – private sector receives payment of margin.



# 3rd phase – Operation of the Maintenance Alliance

- Payments to the private partner are actual direct costs plus agreed margin.
- Component of margin is 'put at risk' under a gain / pain incentivisation arrangement.



# Issues / Downsides of Alliances

- Perception of lack of certainty in the outcome for the road authority.
- Requires significant involvement and commitment by senior management of both parties.
- Requires a significant cultural change.
- Substantial costs to establish.
- For Government road authorities, probity must be carefully managed.
- Both parties must waive their right to litigation.



# Characteristics of High Performing Alliances

- A single cohesive team without any 'us and them' attitudes. Usually adopts its own identity.
- High performance culture characterized by –
  - Clear understanding of the purpose of the Alliance.
  - Unequivocal commitment to meet or exceed objectives.
  - Willingness to commit to targets without knowing how to achieve them.
  - People who mean what they say and do as they say they will do.
  - Individual who are willing to accept responsibility for their actions.



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- Open and effective communication.
  - Success is acknowledged and celebrated.
  - All energy focused on maximising the outcomes of the Alliance – no time wasted on position protecting.
  - Very fast ‘integrated’ decision making.





# Relationship Contracts -

## 2. Integrated Services Arrangements

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- An innovative variation to the Maintenance Alliance is being used in Western Australia.
- This approach has a combined team integrated within the Road Agency and not as a specific identity as with an Alliance.
- The procurement method is similar to that for an Alliance.
- More weighting given to assessing the ability of the team to operate as single entity over time within the road authority.
- Similar to “in sourcing”.



- This approach has a number of other unique features to ensure continued value is obtained by the road authority, including:
  - Original contract duration is 5 years with extensions for ongoing demonstration of positive performance.
  - Business rules are agreed during the procurement phase.
  - The integrated team reports to the road authorities Regional Manager.



- The method for payment to the private sector partner is the same as for Alliances.
- These arrangements enable the road authority:
  - To influence and have control over asset management decisions.
  - Achieve Best Practice in asset management.
  - Achieve Best Practice in network operations.
  - Build and maintain capability and capacity.
  - Achieve innovation, ongoing improvement and outstanding performance.
  - Achieve Value for money.



# Questions

