

# Scope for improvement – Infrastructure & construction projects

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Over the past decade demand for construction and infrastructure projects in Australia has grown at an unprecedented rate as the economy has surged. Indeed, infrastructure spending over the next decade could almost double to \$400 billion, as noted by Ian Porter. ("Infrastructure costs to double", *Sydney Morning Herald*, 8.11.2005)

At the same time globalisation has meant that Australian infrastructure providers are competing in an international market for finance, skills and major equipment. Inefficiencies in the project delivery environment and processes weaken Australia's attractiveness to investors and increase project delivery costs.

Blake Dawson Waldron in conjunction with the Australian Constructors Association recently carried out a study to identify whether projects are being delivered efficiently and where the problems and inefficiencies ("pressure points") lie. Each project surveyed had a project value over \$20 million and the majority each had a value in excess of \$100 million. The results are set out in: *Scope for Improvement: A Survey of Pressure Points in Australian Construction and Infrastructure Projects*.

Only 56% of surveyed projects were completed on time (taking into account permitted extensions of time). Of those projects which ran late, almost 60% ran more than three months late. The cost of such delays can be enormous. In comparison, spending time and effort to get the project right upfront will cost considerably less.

Industry participants identified that they often encounter a number of pressure points which affect project progress. By minimising or eliminating these pressure points, project outcomes will be improved and bring greater benefit to the participants. While each project needs to be considered in the context of its own characteristics and requirements, common themes emerge.

## Scope of work

Over 40% of projects surveyed were inadequately scoped prior to going to the market. Of the projects that were identified as inadequately scoped, 39% were not completed on time while over 50% were completed over budget. Significant time and cost benefits are available if the rush to get an inadequately scoped project to market can be resisted. The report also shows a firm link between those projects which are inadequately scoped and the existence of scope-related disputes. The most commonly cited causes of disputes are variations to the scope and interpretation of what is included in the scope of works.

Principals (whether public or private sector) should carry out a critical analysis to identify all stakeholder requirements and other functional outcomes and include these in the scope document prior to going to market.

## Delivery method

Another key finding is that 20% of respondents say that the procurement method adopted is not the most appropriate choice for the project in question. Choosing the right delivery method is essential to the ultimate success of the project. It defines the risk profile and becomes the touchstone for the participants' relationship for the duration of the project.

Survey respondents appear to have adopted a conservative approach when selecting a project delivery method, relying heavily on previous experience in a sector rather than considering what best suits the characteristics of the particular project.

While prior experience and industry familiarity with contract terms are important, project participants should be cautious of choosing a delivery method out of habit rather than as a result of critical analysis.

## Risk allocation

Similarly, the risks that may arise for a project need to be critically assessed and allocated fairly. The common practice of wholesale transfer of all risk to another party does not necessarily lead to the delivery of a successful project. The Report found that more disputes arise regarding delay events, site conditions and approval in projects where a contracting party feels risk has been inappropriately allocated to it.

## Approval process and land access

The costs and time consumed in the approval and land access processes for a major project are significant and can be a major disincentive to participation as they are incurred up front and often at a time when a project is still contingent on precedent conditions.

While most State Governments have recognised that these processes need streamlining, issues remain such as:

- the need for multiple assessments and approvals – often from Local State and Commonwealth agencies;
- the need to address open ended assessment criteria and provide extensive assessments at an early stage in the project when the design information is often hypothetical;
- the risks of legal challenge if processes are not followed; and
- inconsistent agency requirements for the provision of information, and different approaches to issues between agencies, regions, jurisdictions and projects.

Proponents need to actively manage the approval process to ensure that all legal requirements are properly addressed. It cannot be assumed that environmental and planning approval authorities will fully understand all of the legal and procedural steps for major projects. One proposed solution could be for government to legislate for the validity of approvals once granted.

## What next?

The delivery and maintenance of infrastructure is critical to the economic, social and political life of Australia. The skills shortage and international competitiveness demand that we use our resources efficiently. Principals and contractors need to commit to improving delivery models and finding innovative and efficient ways to deliver projects including:

- focusing on the issues that are commercially material to reach a fair allocation of risk;
- improving scoping;
- adopting contract models that meet the needs of the project including, when relevant, adopting less adversarial contract models such as modern alliance models; and
- minimising delays in the approval and land access process without compromising the integrity of the communities' interest and input in material respects.

The construction industry needs to work smarter to keep Australia working. **There is scope for improvement.**

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