



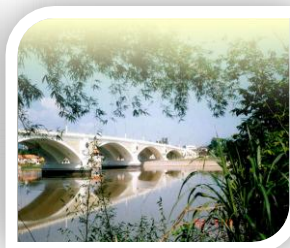
CADANGAN PELAKSANAAN *RELATIONAL CONTRACTING* DALAM PROJEK KERAJAAN

MAJLIS TINDAKAN NEGARA

4 Mac 2010



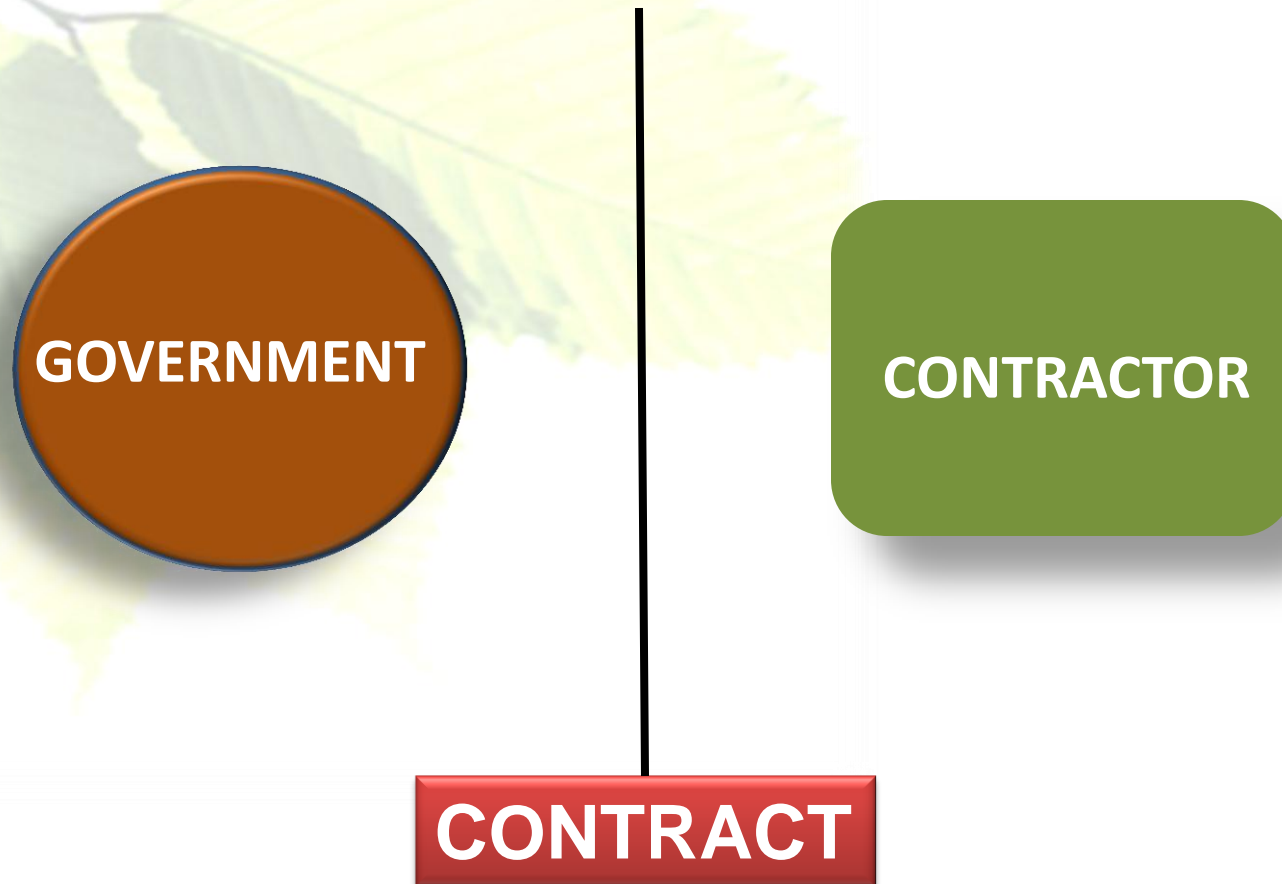
To propose the adoption of
Relational Contracting for selected
complex projects in RMK-10



Conventional Contract

- ▶ **Suitable for non-complex projects**
- ▶ **Suited for projects where construction or implementation risk can be allocated to contractor**
- ▶ **Where robust project documentation is complete**
- ▶ **Where design risk are not high**

Model of Existing Contract



Objective perspectives

GOVERNMENT
Value for Money

CONTRACT

CONTRACTOR
Profit

- ▶ Whole-of-life cycle cost
- ▶ Non-cost factors – reduce contractual disputes & claims, fostering innovation & meeting community expectation
- ▶ Advancing government priorities – broader government objectives such as capacity building

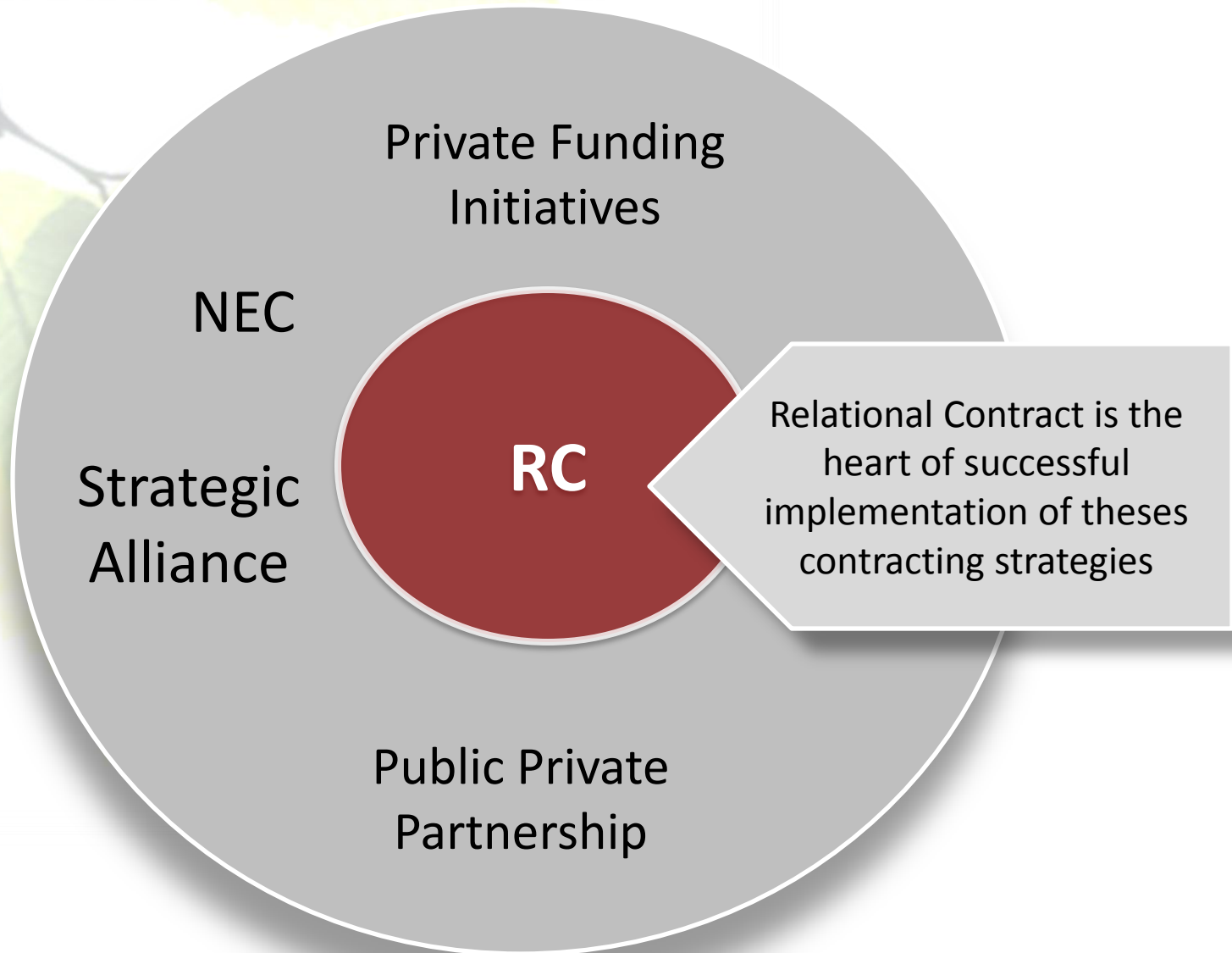
- ▶ Maximise Profit
- ▶ Opportunity to claim
- ▶ Price for risk

DRIVING BEHAVIOUR



Relational Contracting

RAHSIA



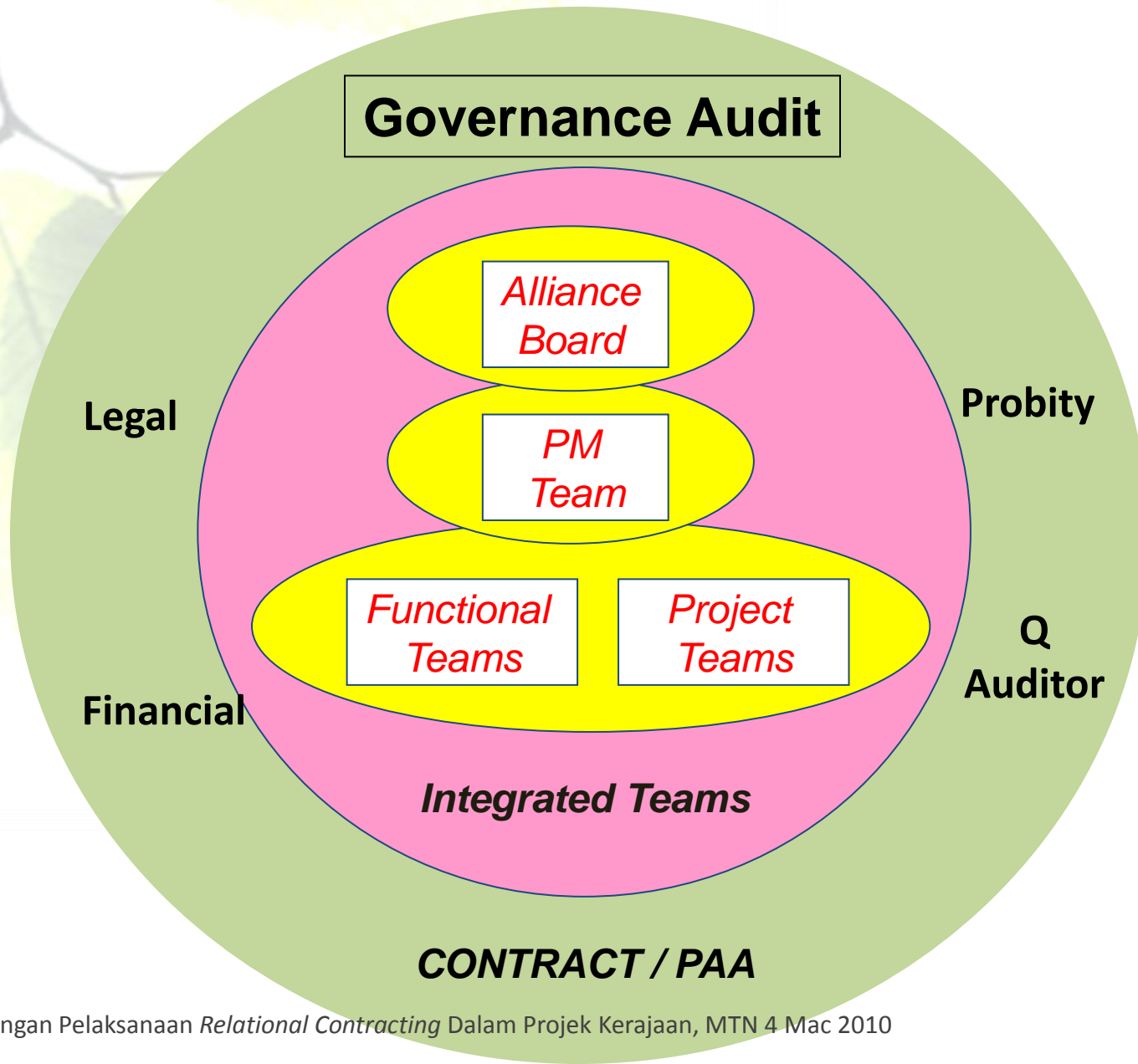
Principles of Relational Contracting

Founded on mutual benefits to the client and contractor to deliver project at the optimum cost

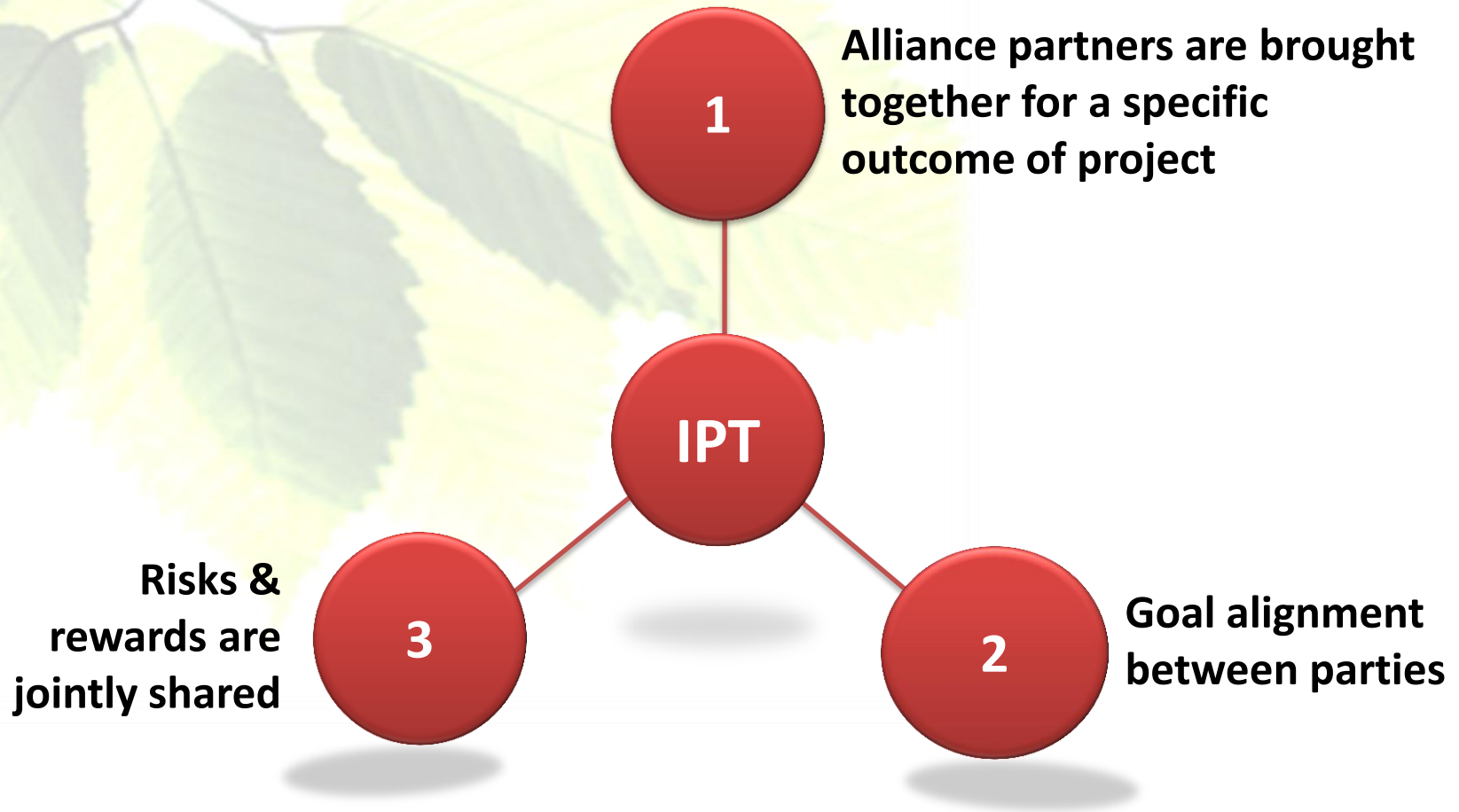
- ▶ **Focus on project outcomes**
- ▶ **Innovative contractual arrangements**
- ▶ **Success of projects measured against KPI**
- ▶ **Open communication between participants**
- ▶ **Equitable risk/reward sharing**
- ▶ **Integrated team approach**

RC FRAMEWORK

RAHSIA



Integrated Project Team



Value proposition

Contracting for
OUTCOMES

delivering
**VALUE FOR
MONEY**
outcomes

creating
SUSTAINABILITY
of outcomes

Relational Contracting

delivering **VALUE FOR MONEY**
outcomes

- ▶ **Value for Money** – defined as the benefits compared to the whole-of-life cost
- ▶ Achieving the best return and performance for the money spent over the whole of life cycle

creating **SUSTAINABILITY** of outcomes

Financial sustainability

- ▶ Asset value + 10 years maintenance + running costs
- ▶ Design to maintain
- ▶ Built to Quality
- ▶ Planned & structured maintenance programmes

Environmental sustainability

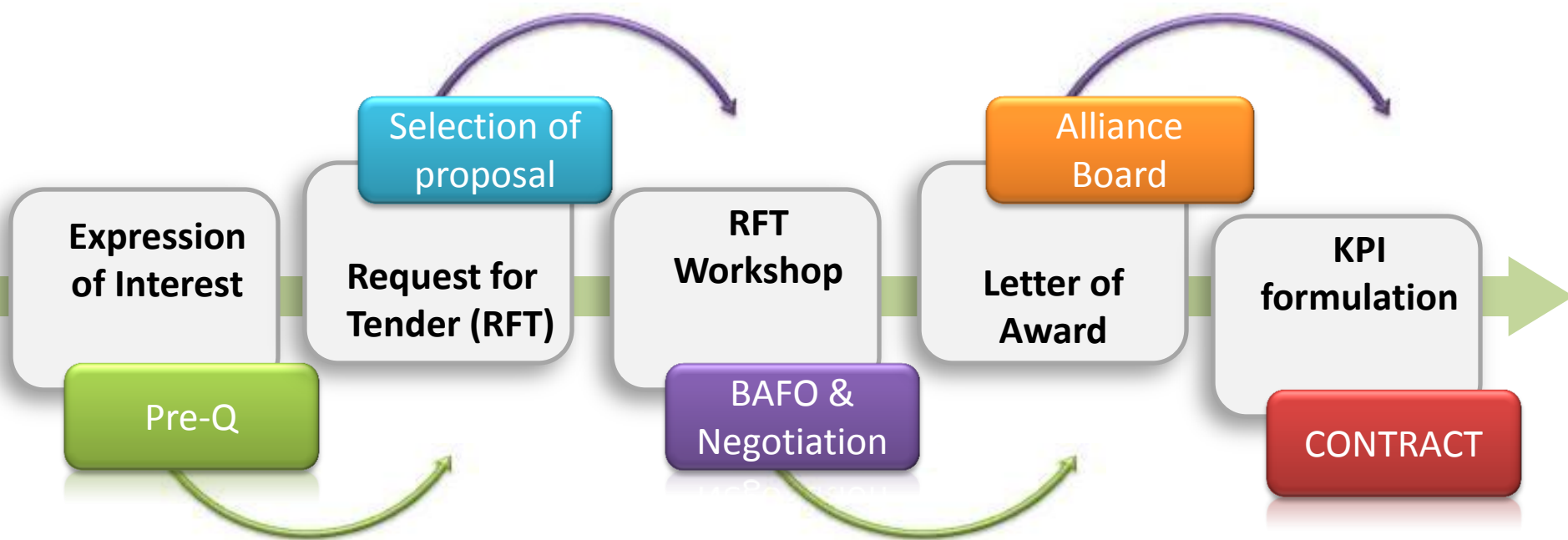
- ▶ Maximise energy efficiency
- ▶ Green Building
- ▶ Green Environment

alternative option for

RC approach

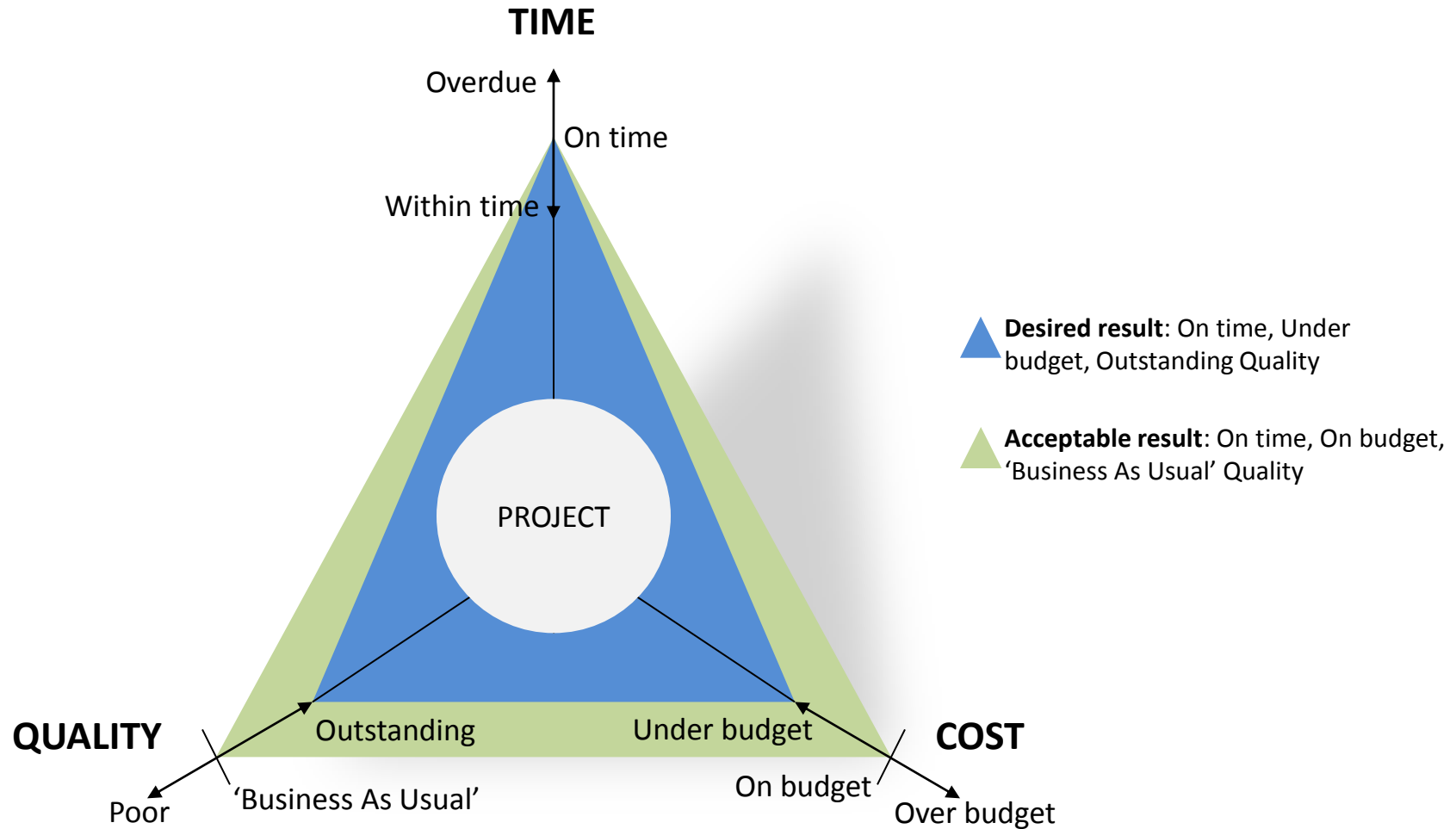
- ▶ Competency-based selection
- ▶ Strategic Alliance
- ▶ Direct Cost Reimbursable
- ▶ Open book system
- ▶ KPI-Linked Performance
- ▶ Sharing of risks & reward
- ▶ Long term maintenance

Relational Contract Pre-Contract Process Flow

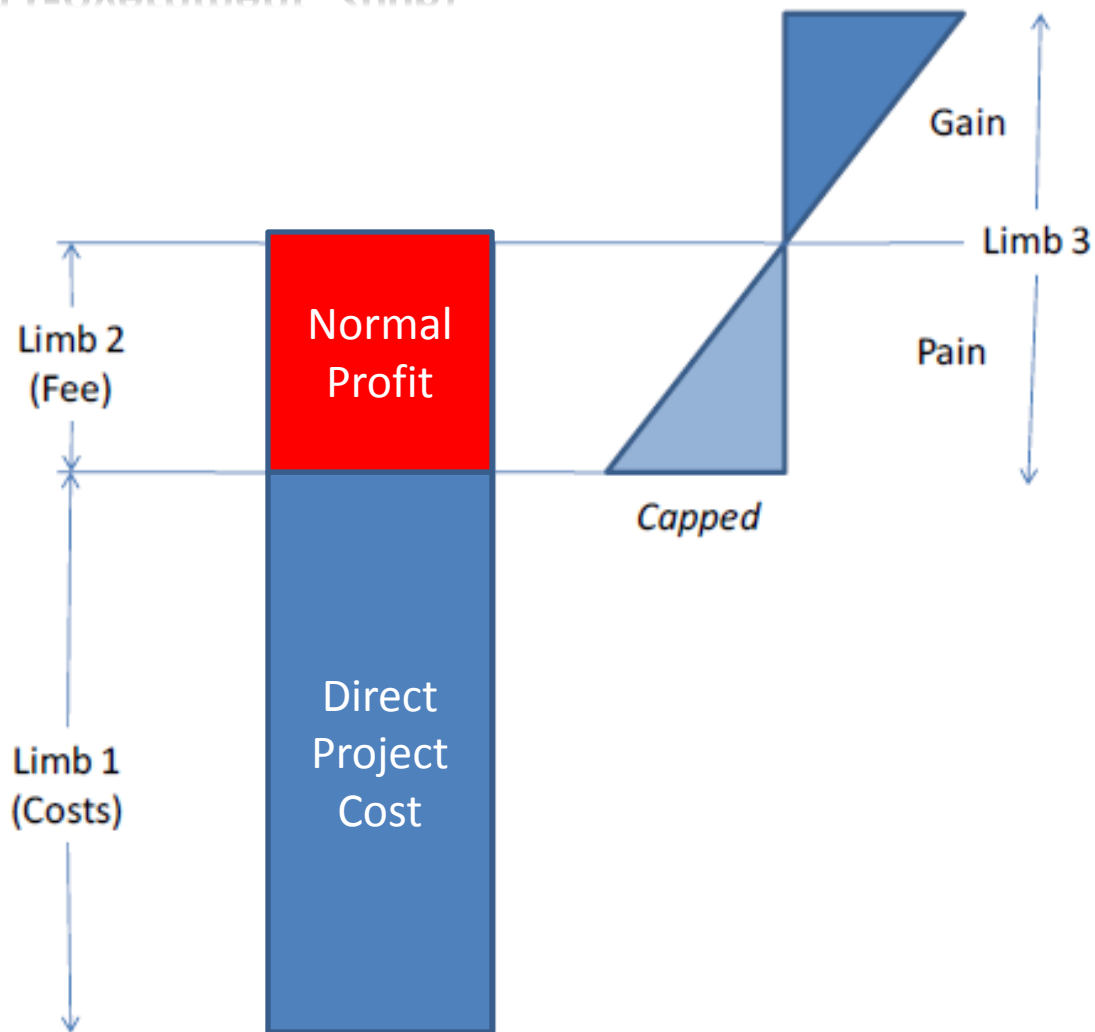


BAFO – Best And Final Offer

KPI - Relationship Between Time, Cost and Quality



Limb Accounting Model (Victorian Government, 2006)



RC around the world

UK – NEC contract, Used in 20 countries
Over 45,500 projects (£20 b)
No substantive NEC case law



in **Australia** since early 1990s,
mainly for infrastructure projects
(approx. AU\$200 b)

Other countries – **USA, South Africa,
New Zealand**

RELATIONAL CONTRACTING

CONCEPT

Reimbursable + Profit
+ Pain/Gain Share

Good Faith & Fairness

ATTRIBUTES

- Collective sharing of risks
- Avoidance of blame & disputes
- Unanimous decision making

- Better value proposition
- Active stakeholder commitment & participation

BENEFITS

Better
outcomes

Creativity &
innovation

Value for
Money

The Way Forward:

What needs to be in place:

- ▶ Make provision for Relational Contracting in government procurement
- ▶ Enable Relational Contracting in financial procedure
- ▶ AG Chamber to facilitates the drafting of alliance contract suitable for Malaysia
- ▶ Formation of steering-committee comprising of JKR and Central Agencies
- ▶ Benchmark project undertaken with Best Practices
- ▶ Setup project management governance on project specific

RECOMMENDATION:

- ▶ MTN to approve the concept of Relational Contracting to be adopted for selected complex projects in RMK-10