Multi-owner projects: 3 governance considerations for owners

Infrastructure Series: What's on the horizon?

Article 5

We are increasingly seeing large and high value infrastructure projects involving multiple owners (or funding partners). This can be due to a number of factors, including:

- owners seeking economies of scale;
- projects being aggregated to create scale to attract contractors' interest;
- owners jointly planning and co-ordinating works so as to minimise disruption to members of the public; and/or
- owners leveraging the procurement and project management capability held by more experienced and better-resourced owners by undertaking projects together.

There are various upsides from being part of a multi-owner project. We discuss three governance considerations for an owner participating in such a project, to ensure they maintain the necessary control and influence over the project, while being focused on what is best for delivering the project:

1. Single-principal contracting with contractors

Complex and high value infrastructure projects with multiple owners are often being delivered through single principal/owner participant alliance arrangements, with that single principal (typically the owner contributing the most funding and that has the most project management experience) acting as agent for the other owners. This approach is largely driven by contractors unwilling to deal with more than one principal, to ensure there is clarity of instructions, certainty of decision-making, and practical efficiency.

It is important for the other owners to ensure that they have appropriate influence in how the project is conducted within the Alliance. This can be done by way of having fit-for-purpose governance arrangements agreed between all owners, which will require the lead owner to represent all of the owners as agreed between themselves. These governance arrangements between owners typically sit outside of the Alliance, and therefore, operate in parallel with Project Alliance Board or Alliance Management Team processes. The co-owner governance arrangements should, at a minimum, cover:

- how decisions are made between owners;
- the types of reserved decisions that require the agreement of all owners (such as selection of contractors, scope changes and changes to completion dates);
- cost contributions and payments by owners;
- dispute resolution; and
- the process for owners to exit the project and the consequences of such exit.

The lead owner then has the mandate to represent the other owners accordingly, while the other owners are secure that their interests are represented for the purposes of the project.

2. Clarity of funding

Multi-owner projects must grapple with multiple sources of funding, multiple scopes of work, and multiple groups of external stakeholders. With respect to funding, to ensure that the lead owner (which will have the role as the single principal) does not end up "financing" the scopes of work of the other owners, and equally, that the other owners do not end up committing to paying for something for which they do not have funding (or approvals for), it is key to ensure there is clarity about:

- the funding available from owners, including how this is impacted if there are any direct or indirect scope changes;
- the process for invoicing owners;
- timing for payment by owners and consequences of late payment or payment default; and
- how budget overruns will be dealt with, including how the contingency pool will be utilised.

This is especially important in these times where project cost increases are common, including due to supply chain issues or continuing pandemic related delays.

3. Getting the right people on board

Managing multiple stakeholders requires, as a starting point, diplomacy, patience, and the ability to cut-through to achieve outcomes. Creativity and the ability to find options that are "best for project", while meeting co-owners' expectations, are equally critical. So, to maximise every opportunity for success, co-owners should ensure they have the right people in the project team who will be able to achieve consensus between owners while maintaining project momentum.

Conclusion

There are emerging opportunities for owners to work together to deliver complex and high value infrastructure projects, to leverage benefits such as knowledge sharing, economies of scale, and experience and expertise of other owners. Owners taking advantage of these benefits should consider the following to help cultivate a successful multi-owner project:

- entering into co-owner governance arrangements to manage interparty relationships;
- ensuring clarity of funding amongst owners, including expectations for cost underrun/overrun; and
- establishing and maintaining a 'one-team' approach within the project team, with the right people on board.

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