



# The Use, Benefits and Risks of Relationship Contracting.

Relationship contracting (also called partnering, alliancing or collaborative contracting) shifts the focus from rigid transactional deals to long-term, cooperative arrangements designed to manage complexity, share risks and align incentives between councils (or other government) and suppliers. It is increasingly used in Australia for complex infrastructure, service delivery and collaborative procurement, but it requires strong governance, probity safeguards and active contract management to deliver value for money.

## What is relationship contracting?

Relationship contracting describes a family of procurement and delivery approaches that prioritise ongoing cooperation, joint problem-solving and shared objectives over short-term price competition or tightly prescriptive specifications. Forms include partnering, project alliancing, public-private partnerships, and formal relational contracts that embed governance and behaviours as part of the deal. These approaches are especially suited to projects or services with high complexity, uncertainty, or where outcomes depend on integration across parties.

## Why local governments use it

Relationship contracting provides a flexible, collaborative approach that helps councils achieve better outcomes in complex service delivery. It is particularly useful for the following reasons:

- Complex public services and infrastructure: Relationship models help manage uncertainty and encourage innovation where traditional prescriptive contracts struggle due to being rigid and focused on clearly defined outputs.

- Alignment of incentives and outcomes: Shared KPIs, pain/gain sharing and joint governance can align supplier behaviour with council objectives.
- Collaborative procurement objectives: Modern procurement frameworks encourage collaboration and aggregation of demand, making relationship contracting a good tool to meet those policy goals.

## Key benefits

Relationship contracting offers tangible advantages such as:

- Better risk allocation and faster problem resolution: Parties jointly manage unforeseen events rather than litigating over gaps.
- Whole-of-life value and innovation: Incentivises solutions that reduce operating costs over an asset's life.
- Improved supplier relationships and capacity building: Long-term trust can develop local supplier capability and efficiencies.

## Main risks and challenges

While relationship contracting offers significant benefits, it also carries risks that councils must actively manage, including:

- Probity and transparency concerns: Reduced competition and extended negotiations can create favouritism concerns.
- Weak contract management and governance: Relationship models depend on active, skilled oversight; without this councils risk poor outcomes.
- Misaligned incentives or unclear scope: Poorly drafted KPIs or governance can lead to misaligned behaviours.
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- Misaligned incentives or unclear scope: Poorly drafted KPIs or governance can lead to misaligned behaviours.
- Legal and policy constraints: Councils must comply with legislation and procurement rules.

### Practical due-diligence & design checklist for councils

1. Policy fit & approvals: Confirm approach complies with legislation and policy.
2. Market engagement: Early testing and justification for chosen model.
3. Clear objectives & KPIs: Draft measurable outcomes.
4. Governance & roles: Joint governance forums and named contract managers.
5. Risk & payment mechanics: Define pain/gain share and liabilities.
6. Transparency & records: Maintain probity and public records.
7. Exit & transition: Include termination triggers and re-tender pathways.

### Contract clauses and governance features

Effective relationship contracts include clear clauses and governance structures that support collaboration, accountability, and performance, such as:

- Relational intent statement (objectives and behaviours): Defines shared objectives and expected behaviours.

- Joint governance board: Establishes defined decision rights and oversight responsibilities.
- Performance measures & reporting requirements: Tracks outcomes and ensures transparency.
- Pain/gain share formula and dispute-resolution ladder: Aligns incentives and provides cooperative mechanisms for resolving conflicts.

### When this model is most effective

Relationship contracting suits projects and services where outcomes are complex or uncertain; integration and innovation matter; suppliers' behaviour affects long-term costs; and the council can commit to active contract management. For routine, commoditised purchases, standard competitive procurement remains superior for transparency and price discipline.

### Conclusion and recommendation

Relationship contracting can be a powerful tool for local government to deliver complex infrastructure and services more effectively, but it is not a shortcut around good governance. Councils should adopt a staged, well-documented approach: justify the case for use; design clear outcomes, incentives and governance; resource skilled contract management; and preserve transparency and probity. When these conditions are met, relational models can improve value for money, speed up problem solving and unlock innovation.

If you need assistance with your next relationship contracting project, the team at Muscat Tanzer have considerable experience in relationship contracting and the development of procurement and contract models and documents to assist with the delivery of complex infrastructure and services.



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