

## Infracom response to social infrastructure PPPs research

The New Zealand Infrastructure Commission, Te Waihanga (Infracom) welcomes the findings of *Measuring the value and service outcomes of social infrastructure PPPs in Australia and New Zealand* as a useful contribution to the body of knowledge on public private partnerships (PPP). The research was undertaken by the University of Melbourne and released 1 April 2020. The research has found high levels of user satisfaction with the social infrastructure PPP projects in the study. The research also confirms that PPPs can deliver value for money when applied to appropriate candidate projects.

The study investigated whether mature social infrastructure PPPs in New Zealand and Australia are meeting the service delivery outcomes expected by users. The researchers investigated whether a sample of 12 mature PPP projects had experienced the anticipated uplifts in service levels described in their business cases and at the commencement of procurement. Two New Zealand PPP projects were considered as part of the study – the Auckland South Correctional Facility and Hobsonville Schools. These two projects are the two most mature PPPs in New Zealand.

The researchers interviewed and surveyed service provider representatives – that is, those that use the infrastructure asset such as school principals<sup>1</sup> – and procuring agency contract managers on their satisfaction with PPP assets and service delivery compared to that of traditionally procured and delivered assets and services. For the Auckland South Correction Facility, Secure Future also operates the facility and therefore the Prison Director participated in the study as a service provider.

The study found that most service providers reported their PPP project as having delivered on the ‘service delivery outcomes’ promised by government and delivery agency at the project outset. Most service providers also ‘expressed a strong appreciation of the quality of services provided’ by PPP facility management. Most service providers and contract managers participating in the study expressed a preference for ‘working in a PPP facility and service contract over a traditional government-owned and operated facility’.

The research supports Infracom’s view that, in the right circumstances, the PPP model can offer enhanced value for money in terms of service outcomes when compared to more traditional procurement approaches.

Cabinet Office Circular (19) 6 requires agencies considering infrastructure investment to evaluate innovative and non-traditional approaches to procurement and alternative financing

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<sup>1</sup> The study defined service provider ‘as meaning those employees utilising the PPP capital assets and services to deliver services to their client community. In some PPP models those employees are public sector and in other cases they are employed through the PPP consortium’.

arrangements, and to select the procurement approach that best delivers the investment objectives while optimising whole of life cost. The Circular notes that current government policy precludes initiating the use of new PPPs in the education, health and corrections sectors.

One of Infracom's roles is to work with agencies to examine which projects might be best suited to delivery through the PPP or a similar financing model. For example, Infracom is currently working with the New Zealand Defence Force to establish whether PPP is the right procurement model for its Accommodation, Messing and Dining Modernisation Programme.

Infracom is also undertaking a review of the New Zealand PPP model to understand whether any changes are required to the existing PPP guidance suite, which includes the Standard Form PPP Project Agreement. Infracom will consider the study's findings and recommendations as part of its PPP Review.

Infracom welcomes this study as important contribution to understanding the value proposition of PPP as a procurement model in Australia and New Zealand. Along with earlier research undertaken by the University of Melbourne, the research suggests that PPPs can deliver enhanced benefits over other procurement models in terms of service delivery, cost certainty and on time delivery. The University of Melbourne has previously undertaken research into the cost and on time performance of PPPs, as compared to traditionally delivered public infrastructure projects. The findings of this study demonstrated that PPPs delivered major projects in a timely manner and reduced the likelihood of cost escalation.

The research was jointly funded by participating government treasuries, which included New Zealand, NSW, Victoria and Queensland, and industry contributions through Infrastructure Partnerships Australia. Infrastructure Partnerships Australia coordinated the research. At the time the research was initiated, major project advisory functions were undertaken by the Treasury's former Infrastructure Transactions Unit, which now sits within Infracom as the Major Projects and Advisory Team.

Infracom appreciates the participation of the Department of Corrections and Ministry of Education in the research. The Commission would also like to acknowledge the participation of Secure Future and Hobsonville Primary and Secondary Schools in the research.

#### Notes:

- Infracom is the government's expert advisor on major infrastructure procurement and delivery, including the use of innovative and alternative procurement and financing models. This mandate includes responsibility for the development of the New Zealand PPP model.
- In the New Zealand context, a PPP is a long-term contract for the delivery of a service, where provision of the service requires the construction of a new asset, or enhancement of an existing asset, that is financed from external sources on a non-recourse basis, and full legal ownership of the asset is retained by the Crown. PPP procurement was implemented in New Zealand for the primary purpose of improving the focus on, and delivery of, required service outcomes from major infrastructure assets.
- The New Zealand PPP portfolio includes eight PPP projects, three of which are still under construction. Each PPP project has an operations term of circa 25 years. Infracom anticipates conducting further research on the performance of the portfolio as the eight projects mature.