

Public-Private Partnership (PPP) for Transmission Gully Highway

Background information

21 November 2012

The 27-km Transmission Gully highway is one of six projects that form the Wellington Northern Corridor, the 110-km route from Levin to Wellington Airport that is being upgraded to provide economic growth benefits, improved road safety and reduced traffic congestion.

In June 2012, a Board of Inquiry appointed by the Minister for the Environment approved the resource consents and notices required for the project, which is now ready to move to the next stage of detailed design and construction.

In August 2012, the Minister of Transport directed the NZTA to assess the suitability of using a Public-Private Partnership (PPP) procurement model to design and build the highway.

Following an extensive business case analysis (using Treasury's better business case framework), the NZTA determined that the project meets Treasury's criteria for a PPP procurement model.

On 19 November 2012, Cabinet gave the NZTA approval to finance, build and operate the Transmission Gully highway using a PPP. The NZTA was also given approval to borrow up to the estimated costs of traditional procurement as part of the PPP. Final approval of the borrowing limit will be confirmed by Cabinet before the NZTA awards the PPP contract.

The procurement of the Transmission Gully project through a PPP will support the government's strategic objectives for transport:

1. The project offers a value-for-money proposition. If bidders are unable to beat the estimated cost of procuring the project under traditional public sector procurement methods, the NZTA will not proceed with a PPP. The actual value-for-money proposition will not be known until proposals have been received and contract terms have been negotiated with the preferred PPP bidder.

2. The project provides an opportunity for private sector innovations that are not always achievable under traditional public sector procurement methods.

Financing and building Transmission Gully as a PPP will allow the NZTA to move ahead with certainty to begin construction in 2014 and open the road by 2020. Because Transmission Gully will be debt-funded over its construction period, approximately \$1b of funding earmarked for Transmission Gully can now be used to bring forward other state highway projects over the next five years.

This includes two other sections of the Wellington Northern Corridor (MacKays to Peka Peka and Peka Peka to Otaki), which means 60km of new highway will be available by 2020. This will deliver the economic and safety benefits of these projects, and it will dramatically improve travel times between Wellington and the lower North Island.

The PPP contract will stipulate the level of performance that the PPP consortium must achieve before payments begin. The consortium will only be paid for the services delivered. Full delivery to the prescribed standards will result in full payment; services delivered below the required standards will result in a reduced payment.

Key performance indicators will be developed to provide the basis for measuring achievement of required standards. These indicators will cover such outcomes as safe travel, reliable journeys, health and safety, customer satisfaction and environmental performance.

The NZTA will use Treasury's Standard Form Contract as the basis for the PPP contract for Transmission Gully. This contract was used for the other PPPs currently in place in New Zealand – for the Wiri Prison and for two Hobsonville schools.

The following sets out the key stages and expected timelines for establishing a PPP for the Transmission Gully project:

- November 2012 – Announce Registration of Interest: To identify consortia interested in, and capable of, delivering the required services.
- January 2013 – Announce Expression of Interest: Potential consortia are asked to provide information on their capability to do the work.
- April 2013 – Identify shortlist of PPP consortia.
- Mid-2013 – Issue Request for Proposal: Formal bids on the project requested from the shortlisted consortia.
- End-2013 – Request for Proposal closes.
- Mid-2014 – PPP contract awarded.