

FAQs: Transmission Gully project – Public Private Partnership (PPP)

Q: What is a Public Private Partnership (PPP)?

A: A Public Private Partnership (PPP) is a long-term contract between the public and private sectors covering the financing, construction and operation of a public infrastructure and services. Full ownership of the public infrastructure remains with the public sector.

Q: What are the benefits of PPPs?

A: PPPs allow large and complex projects to benefit from the private sector being incentivised to deliver superior innovation and risk management solutions leading to better value-for-money and an increased level of certainty of the long term service level outcomes. There are savings to be had on all aspects of the project - design, build, maintenance and operational management. Putting private sector capital at risk is an incentive for the PPP consortium to deliver optimal whole-of-life performance and innovation. PPPs are typically used for large-scale infrastructure projects where risks can be effectively identified and transferred to the private sector and where the long term service level outcomes can be readily identified, incentivised and measured. The NZ Transport Agency aims to use successful ideas and innovations that come out of the Transmission Gully PPP across other highway projects and the wider transport network.

Q: Why did the NZ Transport Agency choose a PPP procurement model to deliver the Transmission Gully highway?

A: The 27-km Transmission Gully highway has the size and complexity which makes it a good candidate for a PPP. The project meets the government's value-for-money criteria, and it will offer opportunities for private sector innovations in design, construction, maintenance and operation that the NZ Transport Agency can then apply across the wider transport network. Specifically, this project has a significant number of structures and geotechnical challenges where private sector innovation can drive greater value for money than is possible by traditional public sector procurement.

Q: Under a PPP, who will own the Transmission Gully highway?

A: Full ownership of the Transmission Gully highway will remain with the public sector. While a private sector consortium will be responsible for financing, designing, building, maintaining and operating the highway for up to 25 years, the highway will remain a public asset – it is never owned by the PPP consortium.

Q: Will PPPs be used to deliver other key NZTA projects?

A: The NZ Transport Agency will consider PPPs for other projects that have the scale and complexity that will permit superior value for money to be achieved by using a PPP approach. Projects will be evaluated on a case-by-case basis to determine if they meet the criteria for a PPP. PPPs allow large and complex projects to benefit from private sector innovation and funding sources which can increase certainty of service level outcomes and drive better value for money, as well as effectively identifying risks and transferring these to the private sector. Using a PPP model for other transport projects will also offer opportunities for private sector innovations in design, construction, maintenance and operation that the NZ Transport Agency can then apply across the wider transport network. Importantly too, it will free up funding that could be used to bring forward other transport projects.

Q: What type of PPP contract is being used for the Transmission Gully project and how does this differ from those used overseas which have experienced some stern challenges?

A: As a relatively late adopter of PPPs as a procurement option, the NZ Transport Agency has had the advantage of being able to learn from the experiences of other global PPP highway projects. The result of this has seen an “availability model’ adopted for the Transmission Gully highway which means that the PPP consortium will be paid for making a safe road open and available to traffic, and after achieving performance levels in particular with respect to the service level outcomes specified for the road. Payments are not linked to the volume of traffic using the road.

Q: Will it cost more to build the Transmission Gully highway using a PPP versus traditional procurement methods?

A: Under a PPP, the private consortium finances the construction, maintenance and operation of the project. In return, the NZ Transport Agency would commit to making service payments to the consortium for up to 25 years, with the first payment made after the highway is available for use in 2019/20. Although the cost of capital is higher for the private sector than for the government, this cost differential can be offset through private sector innovation and efficiencies in design, construction, operation and risk management. In other words, private sector efficiencies can outweigh the higher private sector cost of capital. Ultimately a PPP will only be progressed if the net present cost of the private sectors proposal is less than what it would have cost the NZ Transport Agency to deliver the project.

Q: How will the NZ Transport Agency ensure that the Transmission Gully highway meets the required safety and performance standards?

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

Q: How will stakeholder interests be catered for under a PPP procurement model?

A: The NZ Transport Agency remains committed to the effective management of its relationships with stakeholders of the Transmission Gully project. That commitment will not change under a PPP and the NZ Transport Agency will be taking an active role in ensuring that the PPP consortium effectively manages stakeholder relationships during the duration of the PPP contract.

Q: Does a PPP mean road users will be charged tolls to use the Transmission Gully highway?

A: No decision has been made on tolling. The NZTA is currently investigating the need to toll Transmission Gully in order to assist in the payment of the construction and ongoing maintenance and operation of the road. The PPP procurement model to be used for Transmission Gully does not depend on tolling. If the decision is made to toll, the revenue will be collected by the NZTA and not the consortium that has been awarded the PPP contract.

Q: At what point can local businesses get involved in the PPP?

A: Once NZTA has announced the Preferred Bidder, local businesses are then encouraged to approach the consortium and show interest in being involved in the project. Once the contract is awarded, the consortium members may need to hire local people or acquire local services in order to get construction underway.

Q: Have PPPs been used before in New Zealand?

A: PPPs have been used on two other occasions to date – in Auckland for the Wiri Prison and for the Hobsonville Point primary and secondary schools. Both projects involve 25-year PPP contracts. Construction of the Wiri Prison is expected to be completed in 2014, and the Hobsonville Point primary school was open in February 2013 while the secondary school is expected to be open in February 2014. Consideration is also being given by the government to other projects in New Zealand as possibly being potential future PPPs.

Q: What does the announcement of a consortium that the NZTA will enter into Preferred Bidder negotiations mean in terms of progress towards building the Transmission Gully highway?

A: The selection of the Wellington Gateway Partnership consortium will now allow the NZTA to begin contract negotiations with the consortium and if successfully completed, will lead to the awarding of the PPP contract for the Transmission Gully project by mid-2014. Construction is expected to start shortly after the awarding of the contract.

The Wellington Gateway Partnership is made up of firms with considerable experience in the design, constructing, financing, maintenance and operation of key infrastructure projects, backed by New Zealand and offshore investors, including the following:

- Leighton Contractors Pty Ltd (lead)
- HEB Construction Ltd
- InfraRed Infrastructure General Partner Ltd
- The Bank of Tokyo–Mitsubishi UFJ, Ltd (BTMU)
- Accident Compensation Corporation (ACC)

Q: When will the PPP contract for the Transmission Gully project be awarded?

A: If negotiations with the consortium are successfully completed, the NZTA expects the PPP contract for the Transmission Gully project to be awarded by mid-2014.

Q: When will construction start and when will the Transmission Gully highway be open for traffic?

A: If negotiations with the consortium are successfully completed, the NZTA expects the PPP contract for the Transmission Gully project to be awarded by mid-2014. Construction is expected to start shortly after the awarding of the contract. The Transmission Gully highway can then be expected to be open for traffic in 2020.

About the Transmission Gully project

Q: What is the Transmission Gully project?

A: The Transmission Gully project is a project to build a 27-km four-lane (two in each direction) motorway from MacKays Crossing to Linden (through Transmission Gully). There will be interchanges connecting the route to State Highway 58 and Kenepuru with a connection to Kenepuru Drive. In addition, there will be two link roads from the eastern Porirua suburbs of Whitby and Waitangirua to the route. The Porirua City Council will be the authority responsible for the Whitby and Waitangirua link roads. The project entails protection or relocation of utilities including transmission towers.

Q: Why build the Transmission Gully highway?

A: The Transmission Gully project will provide:

- A safer road and a four-lane route with central median barrier and additional crawler lanes on the steepest section.
- Reduced likelihood of landslides, floods and damage to the highway from a major storm or earthquake.
- Quicker reinstatement than the existing State Highway 1 in the event of a major earthquake.
- Peak period travel time savings estimated at around 10 minutes per vehicle for Kapiti to/from Wellington, 15 minutes Kapiti to/from the Hutt Valley, five to seven minutes Porirua to/from the Hutt Valley.
- Easier access from State Highway 1 to Porirua and the Hutt Valley with shorter and more efficient freight movements to and from Seaview/Gracefield, Wingate and the Wairarapa.
- Important arterial connections for residential and light commercial areas in Porirua East to the State Highway network.

Q: How will the Wellington region benefit?

A: The Transmission Gully route will:

- Provide an alternative strategic link for the Wellington region which will improve regional road network security.
- Assist in remedying the safety concerns and projected capacity problems on the existing State Highway 1 by providing a safe and reliable route between MacKays Crossing and Linden in an environmentally responsive manner.
- Assist in enabling wider economic development by providing a cost-optimised route that better provides for the through-movement of freight and people.
- Assist in the integration of New Zealand's land transport system by enabling the existing State Highway 1 route to be developed into a safe multi-functional alternative to the Transmission Gully highway.

Q: What has been the background to the Transmission Gully project?

A: The chronological history of the Transmission Gully project has been as follows:

- There has been documented public interest in a state highway route through Transmission Gully going back as far as 1919. However it has only been in the last decade that public views have been canvassed formally.
- Two major public consultations were undertaken to ascertain the views of residents of the greater Wellington region whether a route through Transmission Gully should be progressed with. Both public consultations showed overwhelming support for a highway through the Gully.
- In June 2012, regulatory consent applications for the project were heard and approved by an independent Board of Inquiry.
- In November 2012, the Cabinet gave the NZ Transport Agency approval to finance and build the Transmission Gully highway through a Public Private Partnership.
- In April 2013, the NZ Transport Agency short-listed two consortia to each prepare a proposal for the design, construction, financing, maintenance and operation of the Transmission Gully state highway for 25 years.
- These proposals were received in October 2013 and underwent an evaluation process which saw the announcement in December 2013 of the Wellington Gateway Partnership as Preferred Bidder which NZTA will enter negotiations with.

- ❑ The selection of this consortium will now allow the NZTA to begin contract negotiations.
- ❑ If the contract negotiations are successfully completed, this will lead to the awarding of the PPP contract for the Transmission Gully project by mid-2014.
- ❑ Construction is expected to start shortly after the awarding of the contract.
- ❑ The Transmission Gully highway can then be expected to be open for traffic in 2020.