

# Public-Private Partnership (PPP) for Transmission Gully Highway

## Questions and Answers

21 November 2012

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Questions and answers on how the NZTA will use a Public-Private Partnership to finance and build the Transmission Gully highway.

### General PPP questions

**1. What has the government approved?**

Cabinet has given the NZTA approval to borrow the funds needed to build and operate the Transmission Gully highway using a Public-Private Partnership (PPP) procurement model. Final approval of the amount to be borrowed will be confirmed by Cabinet before the NZTA awards the PPP contract.

**2. What is a PPP?**

A 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.

**3. What are the general benefits of a PPP?**

PPPs allow large and complex projects to benefit from private sector innovation and funding sources, which can increase certainty of delivery and drive better value for money. They are typically used for large-scale infrastructure projects where risks can be effectively identified and transferred to the private sector.

#### **4. What are the specific benefits of using a PPP to build the Transmission Gully highway?**

The 27-km project has the size and complexity that makes it a strong 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 NZTA 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.

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, delivering the economic and safety benefits to New Zealanders sooner.

#### **5. What are the specific benefits to the wider land transport network?**

Because Transmission Gully will be debt-funded over its construction period, approximately \$1b of funding ear-marked for Transmission Gully can now be used to bring forward other state highway projects over the next five years.

This includes two other proposed 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.

#### **6. Why is Transmission Gully a strong candidate for a PPP ?**

The NZTA undertook a detailed business case assessment that concluded that the Transmission Gully project would benefit from a PPP procurement approach. Key factors that support using a PPP include:

- The outcomes required from the project can be captured in a performance-based contract.
- Incentives can be included to encourage the contractor to deliver innovative design and construction techniques.
- The NZTA has the capability and resources to manage the PPP procurement process effectively.

- A well-run procurement process should be able to produce PPP bids that are lower than the cost under traditional procurement processes.
- The NZTA will have the benefit of using Treasury's standard form contract, which was used in the two other PPPs (Wiri Prison and Hobsonville schools) that have been used to date in New Zealand.

**7. What type of PPP contract will the NZTA use for Transmission Gully?**

The NZTA will use an availability and performance-based contract, which means the PPP consortium will be paid for making the road available to traffic when they have achieved specified performance levels. Payments are not linked to the volume of traffic using the road. An availability PPP contract is more attractive to potential consortium partners as it removes demand risk. As a result, availability contracts offer greater potential of delivering value for money for the government.

**8. How will the PPP contract be structured? When does the NZTA make payments, and where do these payments come from?**

Under a PPP, a private sector consortium will finance the design, construction, maintenance and operation of the Transmission Gully highway. In return, the NZTA will commit to making debt payments for up to 25 years once the highway is available to traffic and has met all specified standards. These payments will be made through the National Land Transport Fund.

**9. How will the NZTA ensure the highway meets the required safety and performance standards? What safeguards will be written into the PPP contract?**

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.

**10. How much will it cost to build the Transmission Gully highway?**

The design and construction cost, including inflation, is currently estimated at \$1B (\$882M in 2011 dollars). This figure does not include the maintenance and operations services that will also be provided by a PPP.

Under a PPP the construction cost is debt-funded. Interest cost is accumulated during the construction period and therefore we expect the debt level on opening day (2020) to be approximately \$1.3B.

The total cost of the project, including maintenance and operations over 25 years, and 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.

**11. Will it cost more to build Transmission Gully using a PPP versus traditional funding methods? Why doesn't the government borrow the money itself to finance the project?**

Under a PPP, the private consortium finances the construction, maintenance and operation of the project. In return, the NZTA would commit to making service payments to the consortium for up to 25 years, with the first payment made after the road is available for use in 2019/20.

While borrowing funding and spreading the repayments over 25 years means the final cost is greater than paying the full cost up front, it also allows the costs to be shared by those who will benefit from the project in the future.

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.

Putting private sector capital at risk is an incentive for the PPP consortium to deliver optimal whole-of-life performance and innovation. Typically, the larger the project the greater the ability for private sector innovation and efficiencies to offset the capital cost differential.

**12. Does a PPP mean road users will be charged tolls to use the Transmission Gully highway?**

Tolling will not be linked to the PPP contract. However, the Minister of Transport has asked the NZTA to investigate tolling the route to offset some of the construction

costs. We will look into the details of tolling in the new year, and we would consult with affected communities and stakeholders on any proposed tolling schemes. The Minister would separately approve any tolling scheme.

**13. Does a PPP mean the Transmission Gully route will be privately owned?**

No. Ownership remains with the public sector.

**14. Will PPPs be used for other highway projects?**

The NZTA 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.

**15. Have PPPs been used before in New Zealand?**

PPPs have been used on two other occasions to date – for the Wiri Prison and for two Hobsonville schools. Both projects involve 25-year PPP contracts. Construction of the Wiri Prison is expected to be completed in 2014, and the Hobsonville schools are expected to open in 2013 and 2014.

The design of the Transmission Gully PPP will draw on and be tested against these two PPPs as well as against the experience from overseas jurisdictions. This approach will allow the NZTA to take the best from these experiences when setting up the PPP for the Transmission Gully project.

## **The PPP process**

**16. Now that the NZTA has approval to use a PPP, what's involved in setting one up?**

Setting up a PPP is a multi-stage process. The key stages and expected timelines are:

- 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.

**17. Will the PPP process be open to New Zealand companies?**

Yes, definitely.

**18. Has the private sector shown much interest?**

Yes. Early indication points to strong private sector interest in a PPP for the Transmission Gully project. During preparation of the business case, the NZTA undertook market soundings, which indicated that the private sector is capable of delivering the project to the required standards and outcomes.

**19. What happens if the quality or price of PPP bids does not meet the NZTA's expectations?**

The NZTA will only proceed with a PPP if it offers a value for money proposition that betters the cost of traditional public sector procurement.

**20. What happens if a PPP party goes bankrupt or there is a major default?**

The PPP arrangements will provide financiers with the ability to replace a contractor or operator who defaults, and the NZTA will also have the ability to step in should a default occur.

**Transmission Gully stakeholders**

**21. Under a PPP, who will own the Transmission Gully highway?**

While a PPP consortium will build and operate the highway, it will remain a Crown asset.

**22. Does this mean the highway will be built sooner?**

Financing and building Transmission Gully as a PPP will allow the NZTA to move ahead with certainty to begin construction of the project in 2014 and open the road by 2020, delivering the economic and safety benefits to New Zealanders within eight years.

**23. How will stakeholder interests be addressed under a PPP model?**

The NZTA remains committed to engaging with its stakeholders on projects such as Transmission Gully. That commitment doesn't change under a PPP.

A NZTA regional liaison group will be set up to oversee what's in and what's out of the PPP contract relating to stakeholder standards. This group will also monitor and measure stakeholder and customer satisfaction throughout the project.