

## **To PPP or not to PPP**

*By Chris Olsen, CEO Roothing New Zealand*

Given the backlog of infrastructure projects in New Zealand, it makes sense to look at all options for delivering new construction projects. The Government is therefore to be congratulated for setting up a steering group to investigate building the \$2 billion Waterview Connection as a Public Private Partnership (PPP). The extensive consultation process initiated by this group should result in a sound outcome for New Zealand.

PPPs are completely new to New Zealand, so what are their strengths, what are their weaknesses and do they have a place here. At a recent seminar, put on by the New Zealand Council of Infrastructure Development, we heard that the key distinguishing feature of a PPP is that it uses private finance to fund the project. The contention is that publicly financed goods and services are never as cost effective and/or as good as privately financed goods because of a lack of commercial drivers and risk management. It was suggested that this is why Holdens have always been better than Ladas.

Another example used at the seminar came from the building sector. Instead of the government funding the construction of a building and then occupying it, the private sector would fund it, build it, maintain it and then lease it to the government.

Once again the assertion is that the commercial drivers of using private finance produces better risk management and efficiencies over the life of the building resulting in cost savings to the client. These savings occur in both the construction and on going operating phases.

In a way this philosophy of commercial drivers producing efficiencies is similar to that used in the late 1990s to justify 10 year PSMCs (Performance Specified Maintenance Contracts). It's been a while now since Transit has let a PSMC, and Austroad's research does not favour them.

Getting back to PPPs, it was interesting to hear, at the seminar, of the research carried out by the Allen Group in Australia, comparing PPPs to traditional forms of contract. This research took 33 traditional contracts and compared the cost out turns and completion times with 21 PPP projects. The results showed that PPPs produced significant savings over traditional contracts and much quicker completion times.

What struck me during this presentation was how similar the results were to the research comparing alliance or collaborative type contracting with traditional contracts. This research was collected over 10 years on hundreds of projects in the UK and presented by Constructing Excellence in the UK at Roothing NZ's conference two years ago. If these two sets of research are comparing apples with apples it seems to me that alliances produce similar commercial drivers and risk management processes to PPPs.

They do this using a risk sharing model of pain and gain with all parties involved in the project. These parties set aside their respective interests as client, Consultant and contractor and work as one team for the best project outcome.

If alliances do produce these efficiencies, then I believe the answer on PPPs is quite simple. If the government hasn't got the funds to build the project, doesn't want to borrow the money and wants to pay for the project over time (with or without tolls), it should use a PPP.