

Better educational outcomes through improved asset management critical success factor for PPPs

**Media Statement
7 April 2011**

Public Private Partnerships (PPPs) in NZ schools have the potential to improve educational outcomes and transfer property risks to the private sector according to the New Zealand Council for Infrastructure Development.

The first NZ Schools PPP was announced by the Government yesterday and formal expressions of interest will now be sought for the two school project in Hobsonville, Auckland.

"We are confident that there will be strong interest from private sector providers," says NZCID chief executive Stephen Selwood.

"PPPs provide the opportunity for the private sector to demonstrate their capability to design, build, finance and maintain schools more effectively than traditional methods.

"Under most PPPs, payment to the provider is only made if agreed performance standards are achieved.

"But under the best form of PPPs private sector providers and teachers work hand in glove to improve the overall educational experience by allowing Boards of Trustees, principals and teachers to focus on teaching, leaving school asset management to the professionals.

"This looks to be the kind of PPP arrangement the Government is seeking, creating a win/win for both the public and private sector partners.

"The way new schools are procured currently is that the Ministry tenders for a private sector consortium to design and build the school property. When construction is complete, the boards of trustees take responsibility for operating and maintaining the school. Usually, boards contract the maintenance to a private firm.

"This means that private firms are involved in constructing and maintaining school property, but there is no incentive to consider how the school's design and construction impacts on running and maintenance costs during the school's life. The relationship between contractors is usually a short term arm's length master servant contractual relationship. This typically means much greater hands on involvement by Boards of Trustees and teachers in tendering and managing contractors, meaning less time and focus on educational outcomes.

"It also means that the whole of life risk of the school buildings is retained by the government, including liability for leaky buildings and all running and maintenance costs.

"Under PPPs the government seeks competitive bids from the private sector to assume these risks in return for a unitary payment, based on performance. Payment

is only made if performance standards are achieved. Incentives can be built in to encourage more qualitative outcomes.

"At the end of the concession period, in this case 25 years, the asset is handed back to the government in a pre agreed condition. It is up to the private sector to build an asset that will have low maintenance costs and stand the test of time. The government may then choose to maintain the asset from that time on, redevelop it, retender the maintenance, or extend the concession.

"It is pleasing to see the government moving to more innovative forms of procurement. Should the PPP bids not be competitive with traditional methods of procurement, the government will have the option of not proceeding with a PPP and develop the new schools as normal. The challenge is now on for the private sector to demonstrate its capability", Selwood says.