

# PUBLICSECTOR

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**PUBLIC-PRIVATE PARTNERSHIPS:  
A PUBLIC BENEFIT?**

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September: Guarding the border  
December: Open issue

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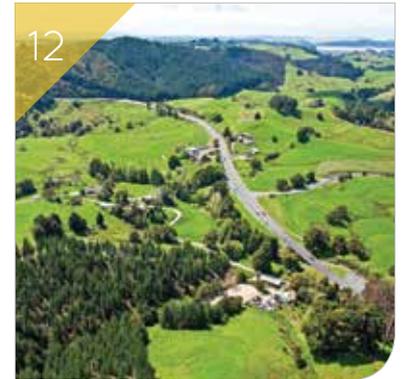
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## It's all about the (right) "F" word...



By IPANZ President John Larkindale

I expect this to be my last column as IPANZ President as I plan to step down at this year's AGM in July. I hasten to note that this is not because of any disagreement with the direction of travel of the organisation or its management and administration, but rather that after four and a half years it is time for a change at the top. I firmly believe that all organisations benefit from regular (but not too frequent) changes of leadership.

As this is something of a departure note, I trust that you may indulge me as I write on a topic other than the central theme of this issue of *Public Sector*.

David Hackett Fischer in his 2012 book *Fairness and Freedom* puts forward the argument that both the United States and New Zealand profess to have "f-words" as their core values. In the case of the United States, the concept is "freedom", whilst for New Zealand it is "fairness". A little simplistic perhaps, but I would argue that there is a sound basis for these descriptors. The current state of political discourse in the two countries reflects them only too well.

In the US, we see the Trump administration driving to undo significant parts of the law which have as at least part of their purpose that of helping the disadvantaged or improving the state of the commons. The attempts to repeal "Obamacare" and the removal or weakening of environmental protection provisions are but some examples. The concept of "freedom" seemingly encompasses not only the absence of servitude or submission, but also the right to live life with little thought for one's fellow citizens, if one so chooses.

The drivers of New Zealand society are

largely very different. The big political issues of the day are built around ideals of fairness. The various aspects of housing, for example, whether they be the increasing unaffordability of house ownership for those seeking to enter the market for the first time, the greater number of homeless (particularly in our larger cities), the impression that speculators are driving up the market for unthinking personal gain, all give rise to feelings of unfairness. Similarly, the disparity between the well-off and those struggling to make ends meet, even if the gap may not have widened significantly in recent years, is seen by most New Zealanders as fundamentally unfair.

This view of fairness manifests itself too in the very muted reaction to the government's trailed proposition last year for tax cuts; the response from the public was very much one of rejecting these ideas, while advocating for greater investment in health, education and social services more widely. For very many of us in this fortunate country of ours, it just does not seem right that some children go to school hungry even if they have a roof over their head. We are an enormously wealthier country than we were in the middle of last century and most of us believe that all of our people should get some benefit from that wealth.

### **The flip side of the coin**

Another aspect of fairness is that of treating people equally, irrespective of race, colour, creed, family background or place of birth. The flip side of that coin has a political face, namely that of not demonising any groups of people. As we look around the world we can see plenty of examples where people are discriminated against by reason of ethnicity, place of birth, gender, religion, sexual orientation or even disability. And

where such views find general currency in the population, we also find politicians seeking to exploit such differences.

New Zealanders can be proud of the fact that as a society we feel uncomfortable with discrimination. That is not to say that on an individual level all of us treat everyone else all of the time exactly as we ourselves would like to be treated. But we are very uncomfortable when governments seemingly seek to introduce what might be called institutional unfairness into our society. The public sector in particular needs to be alert to areas where unconscious bias might influence service delivery and outcomes.

Most of our political leaders understand this, and we have so far at least seen very little (if any) of the populist rhetoric that has been a feature in many European countries and in the US. We need to insist that our politicians keep to that line in the lead-up to this year's election and beyond. We need to get the message across that the issues of the day that trouble New Zealanders the most are ones that are best addressed and resolved by working together with each other, not by driving us apart. In a world that today seems ever more focused on the individual, we need to remember that as well as those individual rights we are guaranteed under the UN Charter, there are also community rights that need to be valued and taken into account.

Fairness may be an abstract concept, but a society that does not accept it as a fundamental value will be a weaker and therefore less successful society. It is one of New Zealand's competitive advantages both collectively as a nation and for each of us individually – we must ensure that we continue to hold to it for the sake of all of us.

# ACCELERATING NEW ZEALAND WORKPLACES

*There's no stopping the pace of change in today's political and economic environment. From housing, to conservation, to infrastructure, the Government is working hard on improvements to efficiency and delivery of services. When operating at this speed, employees in the public sector are required to keep up the pace and develop new competencies on a continuous basis. Change in organisations must be driven by the growth and development of the people who comprise them.*



By Adele McLean  
Sector Manager for State Sector  
at the Skills Organisation

## An evolving landscape

There are over 200 central government agencies that together constitute the New Zealand public sector (including 2,400 school boards of trustees). This sector is constantly evolving as people move within and across the various organisations. It could be a new employee just starting out, a well-versed team leader moving up towards senior management, or a client services administrator moving into the communications team.

Add to the mix new laws and regulations, as well as developing technology, and it's fair to say the public sector of today is extremely different from what we knew a mere 10 years ago. In addition, jobs are being created that simply didn't exist then.

With the right skills and understanding in place, we can embrace this rapid rate of change and reduce the risk of errors. To enable a smooth process of change we need to foster continual workplace learning and development. Doing so can help to drive growth and improve

performance; it can also aid in ensuring best practices are kept to.

New programmes can be established and run efficiently, budgets are managed, and resources are directed to where they are needed. The Skills Organisation teaches exactly these sorts of skills, and provides the working context to make them stick. Most importantly, training must be consistent in different organisations. And it's something we at Skills are working hard to achieve across Aotearoa New Zealand.

## A personal responsibility

Workplace learning should go hand in hand with a career, developing alongside each other as you move up the ladder, or skip sideways to a different ladder. New roles always mean new responsibilities, but there's also room for development of existing skills. In particular in the public sector, health and safety awareness is a necessity, and team leadership can always be more effective and joined-up.

Easy access to the sorts of development programmes based on roles, responsibilities, career pathway, and future vision of the organisation, means an employee will develop a higher level of competency.

The public sector is definitely operating at high speed at the moment, and Skills

and other ITOs are working more closely with public sector organisations to improve their workplace learning.

## Robust standards

The approach is specifically around nationally recognised qualifications using assessment standards. This ensures clear outcomes are recognised, standards are consistent with those set nationally, and existing knowledge is recognised and credited on the Record of Achievement. This approach means candidates' standards can be applied in a number of contexts. It also



means public sector organisations share continuity in their competencies, as employees are achieving national qualifications. Working together, whether it means across departments or across organisations, becomes an easier task.

In some cases, individuals are already doing things right. ITOs can then identify where these competencies align with a national qualification, and provide the means to record these to attain it. In other cases, ITOs can arrange for training providers or assessors to bring in exactly the training which individuals need to fill the gaps in their organisation's abilities.

Each standard, developed by subject experts, describes what a candidate who has achieved the standard knows and can do. Each has a defined credit value, which represents the notional learning time and the complexity of the skills and knowledge that are recognised by the standard.

### Increased efficiency and productivity

Skills sees first-hand the ways that workplace learning can benefit an organisation, turning their investment into increased efficiency and productivity, which spills out into the public sector as a whole. This is the ultimate aim.

As the public sector organisations of New Zealand accelerate towards a brighter future, so too must the people behind them. At Skills, we witness the development of individuals who show increased confidence, innovation, satisfaction and morale.

We have also started to see the transference of competencies and standards as secondments and talent management allow for greater synergy across the sector, breaking down sector barriers, and ensuring a higher-performing public service.

It is an exciting time in the public sector, and we're interested to see things develop further.

*The Skills Organisation is an independent training organisation. One of its key roles is to provide high-quality, relevant workplace learning programmes for employees in local and central government organisations. It provides a range of programmes, from core public services, business administration and management to adult education, dispute resolution and compliance. It also caters for more diverse, specialist programmes. These programmes are linked to qualifications registered on the New Zealand Qualifications Framework.*

*To date, Skills has worked with more than 50 public sector organisations on assessment of training needs, and meeting those needs.*

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## CONTRIBUTIONS PLEASE

*Public Sector journal is always happy to receive contributions from readers.*

If you're working on an interesting project in the public sector or have something relevant to say about a particular issue, think about sending us a short article on the subject. While we will always look at well written pieces on any public sector subject, it would help if your article touched on or related to one of the journal's quarterly themes.

**Remaining themes for 2017 issues are:**

**September: Guarding the border**

**December: Open issue**

**Contact the editor John O'Leary at [johntoleary@paradise.net.nz](mailto:johntoleary@paradise.net.nz)**

## Time to progress your policy career?

If you're open to considering new employment opportunities now is the time to start the conversation. The policy job market hasn't shown any sign of slowing down in the lead up to the election and we are speaking to a number of Managers with a desire to bring additional Principal and Senior Policy Analysts into their busy teams.

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# PUBLIC-PRIVATE PARTNERSHIPS

## Relationships true or contrived?



Dr Ganesh Nana  
Chief Economist

Business and Economic Research Limited (BERL)

Public-private partnerships? Or are they better described as private-public partnerships? The nature of most partnerships comes down to a question of power. Or, who is the dominant partner? However, in true partnerships questions of power become redundant in the face of a mutual understanding of, and trade-offs towards, shared goals and objectives.

Take marriage as the (supposedly) conventional example of a true partnership. This requires an understanding that each individual partner's desires and choices are superseded by the requirements of the shared goal of, for example, raising children. Importantly, if there is no agreement about what precisely is the shared goal, then the chances of a true and lasting partnership are limited.

In this vein, similar to some marriages, there are some partnerships that cannot be described as 'true'. They are, rather, contrived. In such cases, they take the form of a convenient liaison that serves the disparate goals and objectives of the participating players. In these cases the potential for a true partnership is low, as both of the players continue to jockey for position to enable them to prosper according to their own individual goals. This environment sets the scene for further argument over who is getting the better of the deal (i.e. who is reaching their goals more easily at the expense of the other's goals). This jockeying for position is less likely if there are truly shared goals, which takes us back to the critical difference between a true and a contrived partnership.

So, back to public-private partnerships. Are these true or contrived? I find it difficult to argue that they are true. There are clearly disparate and, arguably, competing goals. The public sector has much broader, intangible, and longer-term goals and objectives than the private sector. The absence of shared goals indicates the beginnings of a rocky marriage. At best, it will be a partnership that is not made in heaven, but rather in a lawyer's office.

With this context in mind, PPPs can be seen as a method of bringing much-needed infrastructure investment forward in time and market efficiencies to bear on public sector spending decisions. But PPPs can also be seen as a Trojan horse for the privatisation of elements of public service provision, and as a risk-return equation that will inevitably favour private sector participants.

The first of these is a standard "we can't afford to build it" argument. That is, the public sector is financially constrained when it comes to embarking

on large-scale infrastructure projects on its own. The plan, through a PPP structure, is to unlock private sector financial resources. Otherwise, the argument goes, we need to wait till public sector finances are sorted before the project can be contemplated. The counter to such an argument can be framed in a standard investment decision context – if the benefits of the investment are long-lived (and sufficient) then borrowing to fund such investment is a legitimate option. This effectively brings a similar outcome – i.e. private sector funds are brought to the table – but without the need for a PPP and inefficient squabbling over disparate goals.

The market efficiencies argument is based on the premise that the public sector is inherently less efficient than the private sector. On face value, this is a strong argument for PPPs; but it does assume that market-driven efficiency is an agreed goal or objective. Further, we should remember that some markets are themselves inherently inefficient due to market failures; for example, those with monopoly power present. Recognising this shortcoming of several core markets makes this argument for PPPs not as convincing as it might seem at face value.

### Trojan horse

The Trojan horse argument goes to the very heart of the debate as to the role and functions of the public sector. There are many who see this from a straight black-and-white perspective. On the one side, some believe the public sector's role is to provide these sets of services, which are by their very nature too vital to leave to private profit. On the other side, there are those who, equally fervently, see virtue in profit driving the delivery of these services. Again, though, the differences in the respective goals of the protagonists (i.e. provision of public services, as opposed to delivery of profitable services) is at the root of the argument.

The risk-return argument appears founded on a presumption that public sector players will always be outflanked in contract negotiations by inherently more astute private sector players. Consequently, any contract that private sector players are willing to sign up to must *ipso facto* be skewed in their favour. While this stance is somewhat patronising and disparaging of the capabilities of public sector players, it also does not acknowledge the difference in goals. Private sector players are more interested in the risk-return equation, hence they will inevitably focus their negotiations on reaching a favourable risk-return equation. Public sector players will have other goals to consider and so are more likely to be focused on, for example, service levels and standards in their deliberations.

In conclusion, PPPs are contrived relationships between players with disparate competing goals and objectives. Where each player's goals are recognised, a partnership may be constructed based on adherence to clear and agreed rules. Where there is little recognition of the differences in players' goals, the ensuing relationship will collapse under the weight of incessant power struggles between them.

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## PUBLIC-PRIVATE PARTNERSHIPS: A Public Benefit?

*New Zealand has recently headed down the path of public-private partnership, the process whereby the government and private sector join hands in public asset development and management. Globally, PPPs have proven contentious and at times political. KATHY OMBLER looks at what we're doing, and asks three experts what they think.*

In global terms, New Zealand is a new player in the world of public-private partnerships (PPPs). The current government considers them an option for developing major public infrastructure with a long-term life. Since 2011, eight PPP projects, ranging across prisons, schools and roads, have been initiated. More are under negotiation and, in May, Finance Minister Steven Joyce signalled his wish for yet more PPPs to help with government's infrastructure development programme.

This is not just a National government initiative. Recently, Labour leader Andrew Little told National Radio that if elected to government his party would also consider PPPs to help address a "massive shortfall in infrastructure requirements".

Advocates talk up their merits and point out how we have been able to learn from overseas experience. Critics speak of inherent risks, and privatisation. How are we really faring?

According to the Treasury, a public-private partnership is a long-term contract for the delivery of a service, where the delivery of a service requires the construction of a new asset (or enhancement of an existing asset) that is financed from private sources on a non-recourse basis and where full legal ownership of the asset is retained by the Crown.

Essentially, then, these are major public infrastructure projects, developed and managed in partnership between the

relevant government agency and a private sector consortium encompassing investors and design, construction and asset management companies. Return for the private sector is earned over the life of the project by government payments for the delivery of 'service outcomes', as defined by the project agreement.



Dan Marshall  
Head of PPP Programme, Treasury

During the mid-2000s the Treasury started work towards reshaping public sector asset procurement. Dan Marshall says that in doing so it focused on two things.

"One focus was around the service outcomes that are delivered from government infrastructure assets. In an education context, for example, that will be about the educational services and ultimately the educational success of children. In a prison context it would be about recidivism rates and re-integration outcomes achieved by programmes run in prisons.

"The second focus was around value for

money, in particular on a whole-of-life basis. There was concern that traditional processes were perhaps encouraging (government) agencies to squeeze their capital bids and not give as much thought to the ongoing operations and maintenance costs. Therefore we got cheaply built assets that ended up costing the Crown more in maintenance and operations over the life of the asset. One well documented example where we saw suboptimal outcomes arise was the 'leaky schools' issue.

*"In summary, my view is that PPP is not about tricky deals, not about privatisation and not taking jobs off public sector employees. It is about using taxpayer money wisely and ensuring we get assets and services that are fit for purpose."*

"So that was the rationale for the PPP model."

Having established the PPP programme, the Treasury is now the 'owner' of both that and of the procurement process. According to Cabinet mandate, any agency considering capital investment with a whole-of-life value of more than \$15 million is required to consider a PPP and in doing so they must engage with the Treasury PPP team.

"Many agencies don't procure large scale assets on a regular basis so they don't generally have that specialist expertise in-house. We've been able to build a centre of expertise that works to the benefit of agencies and there is now greater consistency across projects," says Marshall.

Which projects are suited to PPPs?

Typically, says Marshall, they are large infrastructure projects where government ownership is preferred and that have a degree of complexity that allows for innovation in the way asset performance is delivered. "The nature of the asset would be quite specific, a hospital or prison, for example, rather than office accommodation which could be repurposed for anybody.

"We would also argue a PPP is most efficient where the outcomes or outputs you're looking for can be clearly specified."

Durability is also important, he adds. "The asset will be built to a certain design life and we would want to know the services we're looking for will remain relatively consistent. For example, an IT-related project would likely be too short lived to suit the PPP model."

Why not use traditional procurement?

With traditional procurement an agency will decide what infrastructure it needs, then go out and procure that. The agency would then typically be at risk of time and cost over-runs, and be liable for the ongoing maintenance and operating costs, says Marshall.

"Under a PPP the government pays nothing until the operating phase. Because these projects are privately financed, with interest costs accruing, the private partner is very incentivised to deliver on time.

"The process will also take the agency back a step, to identify the high-level outcomes they need the asset to deliver. They will consider the best design that will be able to deliver those outcomes, and how it will perform over the life of the project.

"We (the Treasury) argue that the scope for innovation is far greater with PPPs. They also focus the private partner much more on how the building (say) will perform, because they are responsible for ongoing maintenance and service outcomes. At the end of the day, PPPs change the way we plan infrastructure, and they prioritise certainty around future costs."

What about the PPP procurement process?

Marshall notes that the PPP procurement process is sometimes criticised as being too long and convoluted; however he stands by the process and the need for care, to get it right. Here, in summary, is how it works.

"After an expression of interest phase we will arrive at a shortlist of no more than three respondents to take through the

Request For Proposal (RFP). For up to six months they have regular engagement with the agency in what we call an interactive tender process, so they can understand exactly what it is the agency is asking them to deliver.

"We are heavily cognizant of probity throughout this process. We have to make sure everyone is getting the same information, so there are some constraints for an agency in responding in these sessions.

"Bidders will then submit their bids, which we require to be fully financed and fully committed. Once we've identified the preferred bid there is further negotiation. That's where things we think need to be tweaked in their design can be ironed out, before we sign the contract. This ensures we pragmatically engage with the respondents to get the best outcome."

Marshall says the Treasury is currently working with the private sector to streamline the procurement process to reduce the cost of participating – including through a current review of the interactive process.

### Risks

Marshall believes there is a misconception with PPPs that all risk is shifted to the private sector. "It's simply not true. We believe that risk should sit with the party best able to manage it. If a contractor agrees to deliver a building on time and doesn't resource it sufficiently to do that, arguably that should be their risk and cost. However, if there was an earthquake, a force majeure event that is uninsurable, the Crown would retain those risks.

"One of the risks when you contract for a long-term period is that the model of service delivery will change in that time. So with each project we need to ensure the right level of flexibility is retained. In that sense PPP school projects have led the way, in the design of flexible spaces that can be used in different ways.

"If there are regulatory changes, for example in respect of how prisons have

to operate, government would retain the risk. But if we're talking about a change in corporate tax rates, we see that as a general business risk that the Crown would not retain."

Risk of litigation would depend on the particular situation, he adds. "If, say, someone challenged the right to build a hospital in a certain location, the Crown would take that risk. If it was litigation in relation to elements a private contractor was responsible for - if, in an extreme example, a building collapsed - the contractor would be liable."



"For risk of inflation and cost escalations, we agree we need to keep to an index so we use both the CPI and LCI indices."

"All these things tend to be very well discussed in the PPP procurement process, and the standard form contract now has some well accepted (by the market) positions on risk."

What lessons have been learned?

One of the biggest lessons was about the value of having, and sticking to, a standardised contract, says Marshall. "That was something that came through the research we did in Australia. Now both New South Wales and Victoria are also standardising their contracts to reform the way they engage with bidders."

"Also, you can't underestimate the value of the upfront process. People can be critical that the procurement takes too long. What we see is that investing in that front end has removed so many of the challenges that otherwise get thrown up through the construction process."

"In summary, my view is that PPP is not about tricky deals, not

about privatisation and not taking jobs off public sector employees. It is about using taxpayer money wisely and ensuring we get assets and services that are fit for purpose."

Whether, in fact, that is being achieved is too early to conclusively say, adds Marshall. "We are confident that we have put in place some good contracts but ultimately our programme is only as successful as the outcomes it delivers. Much of that success relies on how agencies and the private sector manage those contracts and engage in a different way of thinking about procurement."



Phil O'Reilly  
Director, Iron Duke Partners

A PPP can be effective; however measurement, clear roles, and defining the service outcomes are essential for their

## PPPs the International View

With public private partnerships now matured in many countries, Copenhagen Business School professor, Carsten Greve, says Canada, France and the Netherlands lead the way in 'getting them right'.

There is now a lot of international experience with PPPs, he says. "Most PPP projects worldwide can be found in the areas of transport, health, education, sports facilities and other types of infrastructure. The United Kingdom and Australia are considered among the early 'leaders', having both started in the 1990s."

"However, the really advanced countries which seem to have got it right, in the sense of setting up a proper institutional framework and a sensible government

structure, are the Netherlands, France and Canada. The Canadian experiences with PPPs are probably the most advanced in the world."

As a benchmarking Canadian example, Greve points to Partnerships BC, established and owned by the Province of British Columbia to support the private sector in the procurement of complex capital projects. Since 2012, Partnerships BC has participated in 52 projects with a combined capital value of almost CA\$18 billion in healthcare, accommodation, transport and utilities.

Greve says that a coherent policy approach, such as that found in Canada, and also in the Netherlands, includes the



success, according to Phil O'Reilly. We also need to avoid traditionally 'lazy thinking' around what the public and private sectors can respectively offer, says the former Business New Zealand CEO.

*"Both the private and public sector need to seek out what citizen benefit looks like and agree and be clear about it."*

"New Zealand has decided yes, we're interested in PPPs, not just for horizontal infrastructure such as roads and bridges but also for projects that involve 'social infrastructure'. Examples are schools and prisons where the private sector will be paid if certain standards or outcomes are met. So it's all about how government values outcomes. You can't toll a prison, obviously, so those outcomes could be about recidivism, or prisoner behaviour or welfare, and you can get the private sector reacting quite efficiently to those incentives.

"What's critical is that these outcomes can be measured."

In the prison example, O'Reilly says that, despite what some social scientists might claim, government holds increasingly

'big data' that shows not just the cost of putting a person in prison, but the flow-on costs of recidivism – of a 'broken life' – in terms of family violence, drug abuse and so on.

"So the government needs to be clear about putting a price, even if it's a shadow price, on what success might look like. The measurement really matters, in terms of your capacity to incentivise the precise behaviour from the public sector that you seek."

The private sector can help here, he adds. "Often these operators will have knowledge about what success looks like in other projects, so we think it is good for government to enlist the innovation of the private sector."

O'Reilly says there is a lot of 'fluffy thinking' around the world about PPPs; many are not well thought out, and both the private and public sectors get involved for the wrong reasons.

"Public servants should be clearheaded around why they are doing this project. If the only reason is to make the balance sheet look dandy, then don't do it. Yes, of



course there is a fiscal upside but there has to be something on top to make it work. It's about the magic of the additive stuff. Both the private and public sector need to seek out what citizen benefit looks like and agree and be clear about it."

The government also needs to be clear in its negotiations about risk, he says. "Things like roads not being completed on time, or solution risk, as in the solution that was procured wasn't actually the solution required. Every time you build something there is risk around that."

In the absence of that final conversation about where the risks of the project should fall, O'Reilly says the private sector will tend to overprice. "They'll punch the price up to cover the potential risk."

The overly long PPP procurement process

following components: "A clear, formulated PPP policy, a PPP unit close to the central government decision-making, a robust institutional framework (including the appropriate legislation and contractual governance arrangement), a portfolio of projects and a proper audit institution."

Greve also quotes from a recent (2017) OECD report, Principles for Public Governance of Public-Private Partnerships, that states it is not so much about the delivery modes itself but rather "the use of a pragmatic approach to getting the infrastructure right".

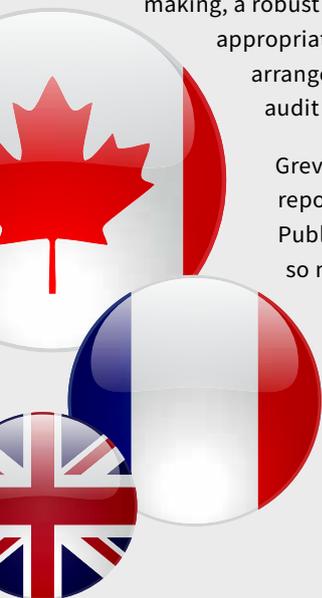
"What makes PPPs successful is a clear economic business case for each project, a clear policy framework, a well-functioning PPP unit with expert staff, risk sharing, a solid institutional

framework (including legislation and a contract form that works), a portfolio of projects and a proper audit institution."

Greve says failures happen when the economic case is overstated, the institutional framework is not in place, the market for PPPs is not developed, risks aren't shared, and the contract is too loose.

A wealth of international research about best practise with regards to PPPs is now available from organisations such as the OECD and the World Bank says Greve.

"New Zealand could use that knowledge, and also take advantage of the fact that a number of companies and other governments would be interested in doing PPP business in New Zealand."



could be tightened with more clear thinking, he adds.

“Making it shorter is not the point, making it better is. I suspect better will lead to shorter anyway. What tends to make it long is when the government players haven’t thought things through: what should the private sector bring, where should risk lie, what do we agree success looks like? There needs to be clear understanding about the respective roles. The private sector offers capital, innovation and global best practice, and the government offers, for example, funding certainty over a period.

“It’s early days yet. Government still tends to have a procurement mind set when it’s really a partnership.”

O’Reilly shrugs off the negativity around PPPs. “There are many people who would argue the private sector has no role in these things; that only the State should build a school, or a prison. It’s mixed up in that ideology of “public good, private bad”. What is unhelpful around that debate is that either side can point to failures, when in fact you can look at PPPs objectively and find failures and successes all around the world, using different models.”

### Broader potential

O’Reilly also sees opportunities for PPPs that are not about big capital spends.

“I’m not sure that government or local government are as ambitious as they might be around the potential of these kinds of vehicles. Let’s not put a red line around PPPs as being about building a hospital or a road. That’s lazy thinking. Let’s start thinking in a broader sense; whenever the public and private sector co-invest in something that, effectively, is a PPP.

You could argue that charter schools, or the Salvation Army running social housing, are also PPPs, he says.

“Government did things in the past just because they always did, for example delivering the post. I think the big issue now is how can the public and private sector work together to make sure that citizen outcomes and provision of services are done by the best actor in the best way, using the best technology and investing once.”

O’Reilly says that, increasingly, long-running issues facing public policy in New Zealand and worldwide are resolvable only

by the public and private sectors working together.

“We could look at countries with economies that look like ours - the United Kingdom, Australia, the Nordics - and ask ourselves how creative are they being about citizen-centred benefit and about mixing up public and private investment, innovation and risk taking.

“I would argue that if you give private sector ‘skin in the game’ in some of these things, while yes, there’s economic payback, the capacity to get more actively soaked into successful outcomes is also a payoff that will occur. Increasingly you’ll see a desire from the private sector to be involved in that.”



Barbara Allen

Senior Lecturer in Public Management,  
School of Government,  
Victoria University of Wellington

A degree of caution exists around PPPs within the academic community says Dr Barbara Allen. On the plus side, she believes that PPPs globally have evolved considerably in the past 25 years and New Zealand has learned from international experience.

Allen has had a long-term academic interest in government procurement, first in Canada, then during what she describes as an “interesting phase” in the United Kingdom during that country’s recovery from the global financial crisis. A number of PPPs were starting to show the fundamental challenges of this kind of procurement, she says.

“Depending on your perspective, it’s not so much that they completely failed;



“The Public Can’t be Expected” The public private partnership, *New Zealand Herald*. 24 October 2002, Alexander Turnbull Library, Wellington N.Z.

after all, infrastructure was built. But they demonstrate the real risk over time to the public sphere in terms of costs.

Clearly, New Zealand has learned a lot from overseas and, coming quite late into the PPP space, has been careful about what could work and not work here, she says. "As a result we are also putting in place consistent standards and a whole package around how these things can work."

Nevertheless, Allen cautions that no matter how carefully PPPs are crafted, things can change.

"Contracting, at the root of PPPs, is of course imperfect. Over 20 or so years of a project interest rates change, stakeholders change, forms of inflation play a role and market situations change. New unmitigated risks emerge, for example contamination could be discovered under a building. You could say the investor will cover that risk and the investor will say that this wasn't in the equation when the contract was signed and that the government has to pay.

"So, getting into very long-term arrangements is not always the answer."

The benefit of traditional procurement is that the government retains more control in the face of unpredictable environments, says Allen. "However, advocates of PPPs will say traditional procurement doesn't give us the expertise and innovation of the private sector, and yes, in some cases that's true."

*"There is a certain 'collective forgetting' around our experience of PPPs. It is really important to study the failures."*

Allen also has questions how citizen benefits can actually be determined over the life of a project. "The holy grail is being able to know what the right outcomes are. With schools, education outcomes are tied in to many other outcomes across society. We also need a lot of work on the social investment cost to society of having

people in prisons. So, while there is a lot of talk about service outcomes, it is a craft as well as a science to determine what those outcomes are going to be, and how PPPs fit into that picture is yet to be well understood."

We should be wary of the rhetoric, she warns. "There is a certain 'collective forgetting' around our experience of PPPs. It is really important to study the failures."

PPP's have quite a strong ideological underpinning, says Allen.

### **Vested interests**

"There is huge potential for vested interests. It's big money and a government that wants to be using the private sector more is going to want to be using PPPs. So a lot of criticism comes from that direction; people see more private sector, vested interests, and more, big, non-New Zealand companies coming in."

It's not necessarily only conservative governments which are keen on PPPs, she adds. "In the United Kingdom it was Tony Blair's Labour government that pushed PPPs massively. If you have constituents saying we need schools, where are the vast sums going to come from in a tight fiscal environment? I think any leader would ultimately be pragmatic about it, especially when it's schools."

Allen says there are certainly benefits from PPPs and they are a really interesting public management tool. "We just have to be aware of the realities. And they are not the be-all and end-all; PPPs are just one mechanism within a wider suite of possibilities."

From an academic point of view, being a procurement specialist in New Zealand is an amazing opportunity, she concludes. "It's all so fresh; 2017 is a moment in time of looking at PPPs with a short history. New Zealand has much to offer in terms of its contribution to the field of PPPs, such as what has New Zealand done that's different and what is particularly relevant to the New Zealand context?"



## GETTING THERE BY GETTING TOGETHER

*The NZ Transport Agency has contracted two large motorway projects as public private partnerships: Transmission Gully near Wellington and Pūhoi to Warkworth, north of Auckland. Why is it using PPPs for these projects and what are the benefits for taxpayers and customers? MARGARET McLACHLAN investigates.*



Shane Avers

Commercial Financial Manager, NZ Transport Agency

Shane Avers, Commercial Financial Manager, NZ Transport Agency explains the PPP approach is very different from other types of contracts.

“For example, the Pūhoi to Warkworth route is an 18.5km road over greenfields, mountainous rolling country and is geotechnically difficult. Rather than designating a narrow road corridor, we sought a wide designation so the project could be completed in the best way. This gives a lot of flexibility to the approach and lends itself to innovation.”

Avers explains that, following Treasury’s policy and guidance on PPPs, NZ Transport Agency identified some projects it thought might meet the criteria to be procured as public private partnerships, and deliver the benefits. PPPs are typically used for large-scale infrastructure projects and include the design, finance, construction, maintenance and management of the motorway. The motorway is publicly owned.

In 2011, Transmission Gully was chosen as the first

PPP initiative. This project is to build a 27km four-lane (two in each direction) motorway from MacKays to Linden (through Transmission Gully); with interchanges connecting the route to MacKays, State Highway 58, Waitangirua/ Whitby, and Kenepuru.

“Transmission Gully has a 90-year history, with many efforts to build it over the years,” Avers says.

*“The contract needs to be tight; from the contractors’ perspective they need to understand what they’re taking on.”*

Financing and building Transmission Gully motorway as a PPP has allowed the NZ Transport Agency to move ahead with certainty. The contract was awarded in 2014 and the road will be open by 2020.

Avers says there are no payments until the project is delivered – effectively transferring the risk to the private provider: the Wellington Gateway Partnership.

Avers explains: “The provider manages, mitigates or puts a price on the risks involved. There are some risks that wouldn’t make commercial sense to transfer, and so we retain these. The contract needs to be tight; from the contractors’ perspective they need to understand what they’re taking on.”



*An aerial view of part of the countryside where the new Pūhoi-Warkworth Road will be built, with State Highway 1 at Schedewys Hill.*

The PPP model used here focuses on outcomes: customers must be able to move from A to B safely, in certain travel times, reliably and with a high degree of customer satisfaction.

“We leave it up to the provider how to achieve those outcomes. They may need to build bridges or tunnels or

move the road left or right. They are able to design-in their approach to management and maintenance. We avoid shutting down options for innovation; we throw the door open to other options,” Avers says.

Many overseas PPP highway infrastructure projects use revenue from road users to pay for the private finance, but the NZ Transport Agency has not used this model to date.

*“Incentives to deliver are built in, and from that comes certainty for the taxpayer.”*

“New Zealand is cautious about transferring tolling risk as part of a PPP. No decision has been made on whether the road will be tolled, but any tolls on Transmission Gully wouldn’t cover the full cost, as traffic usage isn’t high enough. So we’ve gone with the availability model there.”

This means the PPP consortium is paid for making a safe road open and available to traffic over 25 years.

“If the road is closed for some reason, our outcomes are not being met, so payment or partial payment is withheld.”

The final contract price for Transmission Gully is \$850 million (2014 net present value), which is \$25 million less than if the project was procured through conventional means.

The Wellington Gateway Partnership has designed a motorway that is wider, straighter and more resilient than the Transport Agency’s previous scheme.

Avers says Transmission Gully was a pathfinder project and the Transport Agency learned lessons from it into the procurement of its second PPP. There are also expected to be benefits to the wider transport network from sharing innovations, such as adoption of the proposed speed telemetry system that uses radar incident detection and seismic monitoring.

### Innovations

The second motorway procured under a PPP arrangement is the Pūhoi to Warkworth road. This is a key section of the Government’s Pūhoi to Wellsford Ara Tūhono Road of National Significance to improve the safety, reliability and resilience of the state highway from Northland southward

for freight, tourism and motorists.

Key factors that meant using a PPP model was appropriate for this project were: the project’s size and complexity, with opportunities for private sector innovations in whole-of-life design, construction and maintenance.

Avers says, “There were three bidders for the Pūhoi to Warkworth project. They put together consortiums involving design, construction, management and maintenance, and financing. The Request for Proposal (RFP) process took seven months; a long time, which highlights the true scale of these things. The total bidding period was just under two years.”

A contract was awarded to the Northern Express Group in November 2016 at a cost of \$709.5 million (net present contract price). Avers considers this to be a very good price.

The private contractor must meet outcomes such as safe travel, predictable journeys, asset quality, health and safety, high levels of customer satisfaction and environmental performance. If services are delivered below the required performance standards, payments will be reduced.

Avers says the approach, as with the Transmission Gully PPP, was to focus on outcomes but with further design flexibility allowed. The contractor had to look at the environmental impacts and how to mitigate them and had to balance its risk position within a highly competitive race.

As an example, the Pūhoi route goes through mountainous rolling country and involves a lot of earthworks. Reducing slopes is more costly as it means more earthworks. The contractor’s team has steepened the slopes a fair amount, and backed themselves under the availability payment model with careful engineering design and control of rock-fall.

Avers says, “Specific risk-taking lies with them. Risk transfer is valuable for the public sector, which is by its nature conservative. By transferring the risk to somebody else for a period of time, they’re able to manage it with a whole-of-life perspective. Incentives to deliver are built in, and from that comes certainty for the taxpayer. For the Transport Agency, it creates a warranty that if anything goes wrong with the delivery of the transport outcomes, the private contractor must fix it.”



“Is the Ministry Trying?” The public private partnership, New Zealand Herald. 24 October 2002, Alexander Turnbull Library, Wellington N.Z.

# The Right Man for the Job

*A conversation with Geoff Dangerfield*



Geoff Dangerfield

*Geoff Dangerfield, the ex-boss of the New Zealand Transport Agency and a leader lauded for his achievements, talks with Public Sector's ROSE NORTHCOTT about public private partnerships, the importance of organisations having a compelling vision and the benefits of doing a job you enjoy.*

**You graduated from Canterbury University in the mid-70s with a Master of Science in Resource Management. How did your career progress following that?**

I started at the Ministry of Works and Development and then took a couple of years off and back-packed my way round the world. After I returned I spent a bit more time at MWD, then at the beginning of 1985 I went to work at Treasury. I joined on a year's secondment and spent the next 15 to 16 years there.

**How was it working at Treasury during those years of change?**

It was a period of great reform and there was a whole lot of interesting economic work underway. Each and every role I had there was really interesting and the issues and people were fascinating.

I got involved in the establishment of State Owned Enterprises. It extended me into new areas and taught me a whole lot of new skills. I got more involved in the business commercial end of things, and my career progressed from there. In the early 90s I also spent two years in the Department of Prime Minister & Cabinet as an adviser on fiscal and economic policy to the Bolger government.

**You were appointed Chief Executive of the Ministry of Economic Development in 2001 with responsibility for some 800 staff. Tell us about that role.**

My work at Treasury set me up to take on the MED role. A forerunner to the Ministry of Business, Innovation & Employment, at that time it was the largest policy shop across government and very diverse: everything from commercial law and infrastructure settings through to tourism and consumer affairs. Plus, it had a large business delivery role, overseeing the companies' office and the intellectual property office. It was a nice mixture of policy and operational. I was in that role for seven years at a time where the government of the day was putting real emphasis on more active

economic development. There was no dull moment!

**In 2008 you were appointed to head a new Crown Entity, the NZ Transport Agency. What attracted you to the job and how did you go about merging two organisations with very different cultures?**

My job was to create something new. The Government of the day was looking for a much more integrated approach to transport planning, investment and delivery. The challenge was to create a truly integrated transport agency and use all the levers to get much better transport outcomes in a more timely fashion.

My approach was to keep the best of what was already there. I thought at the time it would take four to five years to create something new and leave some of the old elements behind, and that proved true. While it's for others to judge, I think it was pretty successful.

It coincided with a huge increase of focus on transport investment and transport infrastructure delivery – though there is much more to NZTA than just infrastructure. We were merging organisations, and the pressure was on to deliver at the same time. It would have been much more difficult to make a merger like that work if there wasn't a compelling focus on heading towards the future. The context of organisational change shapes success hugely.

**What were some of the other highlights of your time at NZTA?**

The NZTA challenge was how to optimise a big investment portfolio. We were working with long timeframes and large amounts of money. Every year we were investing \$3 to \$3.5 billion of the national land transport fund in projects and services that extended over many years. I loved that. It was fantastic to get your head around how to get the best returns to New Zealand.

NZTA moved me from a core government department into a Crown Entity, working with a really good board drawn from the private sector and local government. It was very enjoyable working with people who had a whole lot of expertise to help make judgements about the right sort of business models we should be implementing.

The other part was how to bring a customer-focused culture to delivering a whole lot of services around how New Zealanders access and use transport – from drivers' licences to registering

their car every year. Making that regulatory environment customer focused was a fantastic challenge.

One of the things I'm most proud of is the relationship we built with local government. It's a critical relationship. In any suburban street, half of the resources are from NZTA and half are from local government. We reviewed and reformed the whole local government-NZTA funding environment to make that more rational and finely tuned to the needs of each local authority.

**Under your tenure, the Government approved Transmission Gully, the first public private partnership for a state highway project involving private sector finance as well as delivery. Was it difficult to get that across the line?**

NZTA and its predecessors have always been a highly outsourced business. All the roading projects it undertakes are delivered by the private sector. NZTA never had its own workforce in that respect. So we have traditionally taken a sort of PPP approach in transport, with strong partnerships with the private sector – but without a private financial component. The new challenge is where you have private sector financing. But in some respects it wasn't that difficult getting the Transmission Gully PPP across the line because the Government wanted more innovative infrastructure delivery and with only a certain amount of funds to go around it was about leveraging private sector finance and innovation.

The conversation with the Government was to bring the private financing option into the procurement basket, and to show that the Transmission Gully business case stacked up. It did and away we went.

Transmission Gully has got private sector finance from New Zealand and overseas and a consortium of delivery agencies. NZTA ran a competitive procurement process where we had two consortiums bidding to bring the best deal to the table. It took six or more months to bring that all together. It's a complex project and a complex agreement.

**What are the benefits of a PPP?**

With a PPP you get the project delivered, but the most important thing is to get good value. To get the PPP over the line, it must be better than delivering the project in the conventional way and you've got to be able to demonstrate that to the NZTA Board, to Treasury and to the Government.

Instead of going out with a specific design outcome statement, that PPP involves a much more outcome-based approach - we wanted a highway starting at Porirua and ending at Paekakariki, and wanted this design speed and wanted an absolutely state-of-the-art safety regime. Bring your best proposals to the table!

These sorts of PPPs work because the private finance at risk drives stronger innovation. It's about smart delivery, and the upside of that is those innovations get used in other projects so you get a net gain across the whole system.

**What are the risks of a PPP?**

The risks are making sure you've got the right set of arrangements for the project and the context. We've seen PPPs in other countries not go well because people haven't grappled with how

the risks are allocated between the public and private sectors. Making sure you've got the right business model is critical. The challenge is that you are entering into a long-term relationship with a 25-year payment period. You have to build capability inside the organisation and a set of systems to be able to manage that relationship for the long run.

**When you stepped down as CE in late 2015, your Board Chair said you had harnessed the passion and skills of your team to establish NZTA as a top-performing organisation with an enviable record of achievement. What, in your view, is the essence of a good public sector leader?**

Leadership is about creating a clear vision of what you are trying to achieve as an organisation, and getting people to understand their unique part in delivering that; being able to connect with them individually about making sense of the whole picture. At NZTA I spent as much time as I could out and about talking with staff about what we were doing and why. We were ambitious, but as I mentioned earlier, if you've got something compelling going on it's much easier to make a case for staff to be excited about.

**Why did you decide to resign?**

I felt the time was right to leave in two senses - one was the organisation was in good shape and ready for leadership renewal, and secondly the time was right for me. I'd done 15 years as a CE and I wanted to be able to do some other things in my life. I wanted to change gear and work in a way that would give me the flexibility to choose the pace and involvement.

I've got a number of company directorships and am also the Executive Chair of the New Zealand Festival and on the Vulnerable Children's Board. I'm doing quite a few things for various government agencies and I've got time to get into our new house and garden. To be honest, it's taken a wee while to get my head around what the change really means, but I'm loving it.

When I look back on my working life I've done things that I've enjoyed. If you are doing work you enjoy, it doesn't seem like work.



# SUPPORTING THE KIWI WAY

*In the second in our series on Commissions, SHELLY BISWELL talks with Walking Access Commission chief executive Eric Pyle about the Commission's work and why walking access is crucial to our Kiwi way of life.*

Most New Zealanders probably take the ability to get into the great outdoors for granted – that is until we come to a locked gate that we previously could get through, or signs go up that say “no trespassing” near our favourite camping spot.



Eric Pyle

Walking Access Commission Chief Executive

Walking Access Commission chief executive Eric Pyle says that most New Zealanders value the ability to access the outdoors, but they may not realise what it takes to maintain that access. In fact, public opinion research undertaken on behalf of the Commission in 2015 found that 95 per cent of those surveyed believe free and easy access to the outdoors is important, and 92 per cent had used the outdoors for recreation within the previous 12 months.

“A big part of the Commission’s work is raising awareness about what areas are accessible, as well as providing information and education

on the roles and responsibilities involved with access,” Pyle says.

Gaining entry to public lands, waterways and the coast is covered by a range of statutes across central and local government. As one look at the Walking Access Mapping System [see box out] that the Commission maintains will show, access to the outdoors is often fragmented.

Established under the Walking Access Act 2008, the Commission is the only government agency with a primary focus on walking and other forms of access. It’s a small but high-performing team that includes a five-person Board, a staff of 10 in Wellington and part-time regional field advisors around the country.

Aside from developing the Walking Access Mapping System, to improve information about accessing our public lands, waterways and coasts, the Commission has developed the New Zealand Outdoor Access Code that outlines the responsibilities associated with accessing the outdoors. The Commission has also created the educational website “Both Sides of the Fence” so that school children can gain an understanding of the range of viewpoints associated with access.

Previously, much of the work of the Commission sat within the Department of Conservation. It was a natural fit in many ways; after all, more than 30 per cent of New Zealand’s land area is administered by DOC and much of this is publicly accessible. Establishing a standalone

Crown entity, however, has put a greater emphasis on the issue of access.

“In our first years as an organisation we found that much of our energy was devoted to addressing a backlog of access disputes,” Pyle says.

A large proportion of the enquiries the Commission receives are centred on individuals or organisations limiting public access to legal formed and unformed roads. In some cases, there might be lack of clarity about whether a road is a legal public road or in other cases there may be concerns about safety or property.

Last year, the Commission resolved 24 access disputes and received 26 new access dispute enquiries. Combined, this work contributed to creating or protecting 43 access opportunities.

“With access rights there are responsibilities, so we often work with communities to address underlying issues that have led to the dispute,” Pyle says.

“We expect to see these types of disputes decline over time, which means the Commission can focus on other areas, such as raising awareness of people’s rights and responsibilities in the outdoors, and advocating for public access in planning processes.”

Pyle says that New Zealanders’ relationship with the land is changing, which impacts on the work of the Commission.

“With more people living in urban areas and

**Belmont walkway - regional community park walk**



changes in rural communities where there is a move to larger, corporate farming, walking access rights and traditions have weakened,” he says.

*“We are in a time of transition where we need to find ways to balance access rights, property rights and the environment.”*

“We are in a time of transition where we need to find ways to balance access rights, property rights and the environment.”

#### **Too much of a good thing?**

While tourism – both international and domestic – is largely seen as a positive for New Zealand’s economy, it also puts additional pressure on existing access arrangements.

As Board member Penny Mumford wrote in the Commission’s April 2017 newsletter, “Many New Zealanders are not aware that farmers and other landholders often allow people to have access across private land so that they can get to their special recreational spots. This generous practice has been going on in New Zealand for generations and underpins some of the spirit of being a rural New Zealander. Being a custodian of the land and sharing rural experiences with others is for many an integral part of Kiwi nature.”

As pressures increase, however, some private landowners have withdrawn public access because of lack of respect for their property or increased safety concerns.

Pyle says, “for example, The Roaring Meg

Pack Track near Queenstown was closed by the pastoral lessee due to concern about the number of mountain bikers, the speed they were travelling at and the impact on farm animals and the farmers. The Walking Access Commission negotiated reopening the route for walkers and horse riders and developed signage for the route so visitors knew what type of access was allowed.

“The Commission is investigating the potential implications of tourism on access so that we can find ways to address these pressures. It may mean looking for alternative solutions, such as temporary closures during parts of the year (such as during lambing season) or only certain types of use. It may also involve thinking more holistically about all the infrastructure associated with access, such as parking and toilets. Unless we address issues now, there’s a risk that we could lose a significant amount of public access.”

#### **Everyday access**

While access to outdoor recreation is the primary aim of the Commission, Pyle says it’s important to think about access in an urban context.

“It’s crucial that we ensure New Zealanders can walk or ride their bikes not only for recreational purposes, but also to and from school, work, their local shops, their GP – the list goes on,” he says.

“There are individual health benefits to a more active mode of transport such as walking or cycling, but there are also wider benefits, such as reduced air pollution and better-connected communities. More and more we find the government, regional councils and local

communities are recognising those benefits.”

Auckland Council has a Greenways Programme that is developing trails across Auckland, while the Wellington region is developing an integrated trails strategy.

While there’s growing political support for active modes of transport, there are also challenges. A report prepared for Auckland Transport in 2015 found the number of Auckland residents who said they regularly used walking to get around dropped from 46 per cent in 2014 to 42 per cent in 2015.

Pyle says the Walking Access Commission has a clear role to play in advocating for community walkways and bicycle paths, and to support community and regional planning that promotes active modes of transport.

Free and enduring access to the outdoors is fundamental to our way of life as New Zealanders, and contributes towards the health and wellbeing of our communities. It’s also an important aspect of our burgeoning tourism industry.

Pyle sees incredible opportunities for improving access into the future.

“Access to our public lands, waterways and coasts is the ‘Kiwi way’, but that way requires active participation. It requires an understanding of the responsibilities that are associated with access, as well as a commitment on the part of government and communities to support the infrastructure required to maintain these important links to our New Zealand heritage.”

## **Walking Access Mapping System**

WAMS is an online tool that uses geographic information system (GIS) technology to show land that is publicly accessible. The information can be viewed over topographical maps or aerial photographs.

Launched in 2012, WAMS was updated last year to better meet the needs of users. Upgrades included refined drawing and measuring tools. The tool also allows people with GPS devices to export data and upload route plans.

 [wams.org.nz](http://wams.org.nz)

## **What’s accessible?**

- More than 30 per cent of New Zealand’s land area is administered by DOC and much of this is publicly accessible. Other Crown-owned land may be open to public access at the Crown’s discretion. Crown lands that are leased for specific purposes such as pasture, however, are in the exclusive possession of the leaseholders and have similar access controls to those of private land.
- Local authorities are responsible for significant amounts of land, including 56,000 kilometres of unformed legal roads, which provide public access.
- A range of legal instruments supports public access to about 70 per cent of New Zealand’s waterways (known as the Queen’s Chain).
- Public access along the foreshore is covered by the Marine and Coastal Area (Takutai Moana) Act 2011. Most of the foreshore is open to public access except for some areas that have been affected by erosion or where private title extends across the foreshore.
- Permission must be obtained for public access across private land. Access may be granted under formal (such as through covenants made under the Queen Elizabeth the Second National Trust Act 1977) or informal (such as a verbal agreement between a landowner and user) arrangements.

# THE ART AND CRAFT OF POLICY ADVISING: A practical guide



David Bromell  
Principal Advisor, Environment Canterbury

*In the second article in our new Books section, editor JOHN O'LEARY talks to David Bromell about his recently published book **The Art and Craft of Policy Advising: A Practical Guide** (Springer, 2017).*

**John: What is your professional background?**

David: I'm a policy wonk. I worked at the Ministry of Social Development in Wellington for 10 years in various policy roles, including secondments as a private secretary in the Beehive, and a year working on tertiary education policy in the Ministry of Education. I was acting Chief Policy Advisor during my final year at MSD. Before I joined the public service, I worked in tertiary education, parish ministry and the community and voluntary sector.

Since 2013 I've worked in local government as a principal advisor at Environment Canterbury, mostly working with the Canterbury Mayoral Forum on regional economic development. For the last 10 years, I've enjoyed an association with the Institute for Governance and Policy Studies at Victoria University, and I teach political philosophy and public policy in the School of Government.

**John: What prompted you to write your book?**

David: When I was working in the Beehive I got motivated to improve the quality of policy advice. There was the dreaded 'weekend bag' of papers that Ministers take home with them on Fridays. I thought too many of our papers were overly long and poorly written. A busy Minister needs concise, clearly expressed advice that is presented consistently,

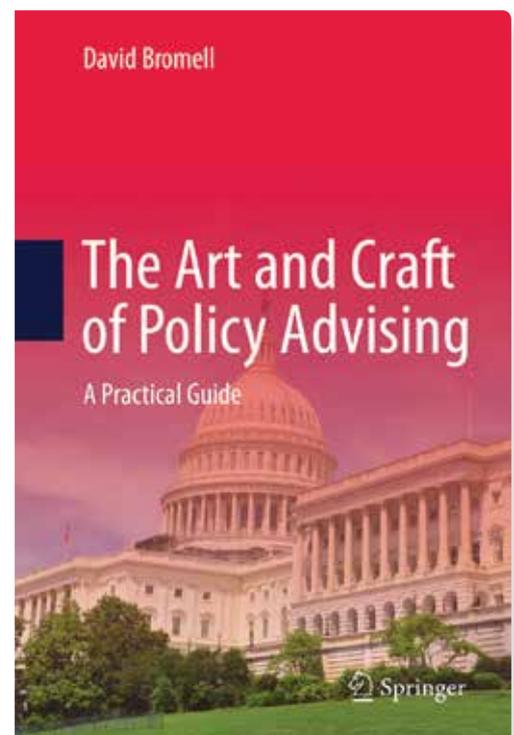
using well-designed document templates. I talked to policy managers at MSD and worked with colleagues on how we could support one another to improve the service we provide to senior managers and politicians. This book, you could say, is an outcome of these discussions and of my own experience as a policy advisor.

I also wrote the book out of frustration with some academic models of 'the policy cycle', as if policy making proceeds in a tidy, logical series of stages and steps. Those of us who work in policy know it isn't really like that. More often than not, policy making is non-linear and follows a winding or even recursive path. I think about policy advising less in terms of cycles, stages and steps, and more in terms of relationships, integrity and communication.

I had no formal training in public policy when I joined the public service, and that's true of around 50 per cent of policy staff in NZ. We learn on the job. I write about this in the book as an 'apprenticeship model' of applied learning. My apprenticeship took about ten years – perhaps I'm a slow learner; I certainly made plenty of mistakes!

So I set out to write the sort of book I wish I could have read when I began my apprenticeship in the art and craft of policy advising. There are lots of good books on policy analysis, very few on the actual practice of policy advising. I've written as a practitioner for practitioners, passing on some of what I've learned about effective policy advising.

What gave me the opportunity to write it was a research fellowship at the NRW



School of Governance in the University of Duisburg-Essen in Germany for three months last year.

**John: So what is the book about?**

David: It's a practical guide, particularly for new policy advisors and their managers, and something to come back to for more experienced advisors.

The first chapter is introductory. It outlines my basic approach, distinguishes between the functions of analysis, advice and advocacy, and introduces a theme of ethics and public policy that runs through the book.

The second chapter asks: 'Who are my clients, and what do they need from me?' How do we manage multiple clients, and

prioritise who and what to pay attention to, when and why?

Chapter three prompts reflection on how much government is good for us, and thoughtfulness about what is private, what is public, what is 'in the public interest', and how we might best create public value in the policy advice role.

Chapter four is on doing policy analysis in ways that factor in emotions and values as well as 'the facts'. The way I pitch it, policy analysis is essentially the art of crafting the right questions to facilitate incremental social problem solving.

*I set out to write the sort of book I wish I could have read when I began my apprenticeship in the art and craft of policy advising.*

Chapter five is about effective communication, writing well in plain English, crafting recommendations and preparing verbal presentations.

The final chapter is about different ways of working with others to create long-term public value. The chapter, and the book, conclude with further reflection on interpersonal skills for effective collaboration, 'scheming virtuously' and

ethical competencies for public service.

Because I want the book to be a useful, practical guide, I've kept it short and to the point – 177 pages. Each chapter starts with theory and practice, goes on to processes, tools and techniques, and finishes with questions for reflection, to get the reader thinking about their own approach and practice.

People tell me it's very 'readable'. It was important to me to write in the 'plain English', clear, concise style I'm recommending for effective policy advice.

**John: What broad conclusions have you come to about policy advising?**

David: I think it's as simple – and as complicated – as this: focus on your audience, anticipate clients' needs, build a relationship of confidence, maintain the integrity of our advice, communicate effectively, and provide good value for money.

**John: This sounds a very useful book!**

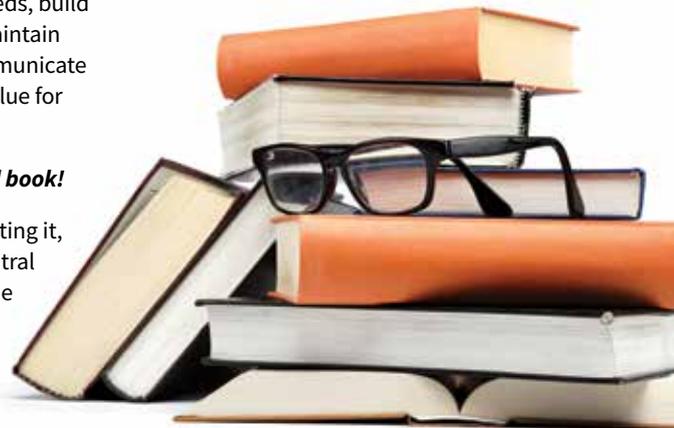
David: I hope so. While I was writing it, I recruited peer reviewers in central and local government, and in the NGO, education and training sectors in Cambodia, Canada, Germany, Wellington and Christchurch. Their

feedback was a great help. I still think peer review is our most powerful tool to improve the quality of policy advice – and the effectiveness of our communication.

**John: Now that this book is finished, what's next?**

David: Well, I have a mind to write something about pluralism and public policy – how we might best manage 'deep diversity' and work out how to live well together, not by demanding 'rights' but by negotiating 'interests' in a world in which everything is connected.

The Art and Craft of Policy Advising, and its individual chapters, can be purchased in ebook format from [springer.com](http://springer.com). It is also available for purchase in hardcover from Vic Books, and from [springer.com](http://springer.com) and major online booksellers.



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# PPPs - PUBLIC PRIVATE PARTNERSHIPS OR POSITIVELY PERNICIOUS PROBLEMS?



Derek Gill  
NZIER

*New Zealand has been a late and cautious adopter of public private partnerships. Are we missing out on something positive or just managing to avoid the mistakes others have made? DEREK GILL of NZIER explores why New Zealand needs to stick with a ‘caveat emptor’ approach.*

### What is a public private partnership?

PPPs involve a partnership arrangement between the public and private sectors. Partnering arrangements can take a number of forms and there is no generally agreed definition of PPPs. Our focus here is on PPPs for long-term infrastructure investments where the capital involved is financed by the private sector, which provides ongoing services to the government under contract. The new Transmission Gully expressway north of Wellington is based on a contract to design, build, finance and maintain the new road once it comes into service in 2020. The essence of infrastructure PPPs are long-term contracts for the delivery of a stream of services, which includes private finance in the construction phase.

### What PPPs are not - privatisation by stealth

One shibboleth needs to be addressed up front: PPPs are different from privatisations where the government sells assets outright. Partnerships between the public and private sectors are as old as government itself. During the history of government, every function undertaken by government has also been delivered by the private sector. PPPs are just a new variant on an old theme about where the line is drawn between the public and private sectors. What differs over time and between countries is where the line between the public sector and the private sector is drawn.

Under conventional procurement arrangements, the government contracts with private construction companies to build an asset. In the operations phase, the government either contracts with a private contractor for the supply of outputs required or contracts for the inputs required such as labour, maintenance,

cleaning services etc. and delivers the outputs itself.

What PPPs do is redraw the line between the public and private sectors. Figure 1 (courtesy of the OAG) shows the complex web of relationships that a PPP creates.

### PPPs in New Zealand

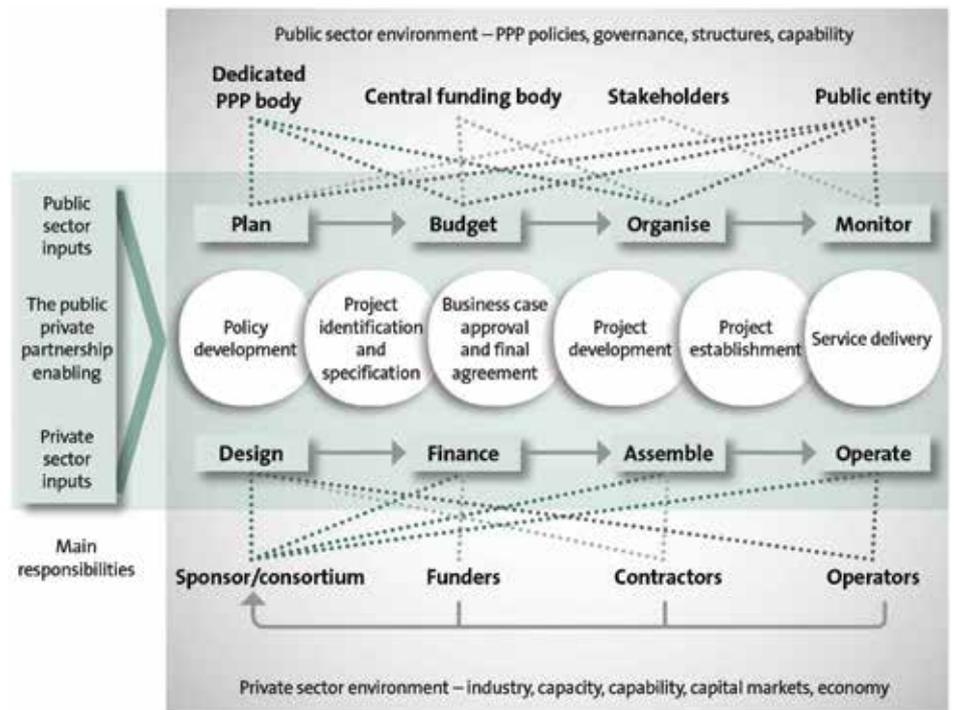
New Zealand has been a late and cautious adopter of PPPs for long-term infrastructure projects. When *Public Sector* journal covered this issue last in 2008 there were no PPPs in operation in central government and one partnership arrangement in local government (the Vector Arena in Auckland).

Ten years on, things have moved quite markedly

in central government but less so in local government. Since the National Government announced a PPP programme in 2011, eight PPPs are underway in the education, transport and justice sectors (and three more are under consideration):

These include the Hobsonville Schools PPP for maintenance services now operating (education services are provided by the public school), Wiri Prison (a 960-bed men’s prison) which has been operating since 2015, and the Transmission Gully expressway due to be completed in 2020.

There has been less activity in local government, with the SkyPath project in Auckland and consideration of the proposed light rail project as a PPP. Overall, however, infrastructure



Source: OAG 2011 Figure 1 Managing the implications of public private partnerships.

PPPs to date have been focused on improving maintenance rather than direct delivery of services and are still relatively small in New Zealand. The latter in part reflects the gatekeeper role that the NZ Treasury has played, based on the view that the PPP model is not suited to all infrastructure projects. Around 1 in 3 PPP proposals have proceeded to final contract.

While the government has encouraged selective development of PPPs, the Leader of the Opposition has also expressed 'an open mind' on the use of PPPs for infrastructure development. "I've long seen and long studied public private partnerships. There are some that have been absolute disasters and some that have actually been quite successful."

### **So why have PPPs?**

The intuition behind PPPs is simple. Conventional procurement proceeds with two separate contracts for construction and ongoing operation. PPPs make sense when there are gains from bundling the construction and maintenance or service contracts together. This can arise when efficiency improvements are reasonably cheap to introduce as part of the build stage and it is easier to write a contract for the service provided rather than in the building phase. Changes in the design phase, as a result of input from the operating arm, can result in whole-of-life benefits from operating efficiencies. These efficiencies can take two forms: improved asset performance because maintenance considerations are factored into the design; and enhanced service performance where service delivery considerations inform the design.

*The mixed empirical evidence supports neither the blatant advocacy of the proponents of PPPs nor the vehement opposition of its critics.*

For a monopoly provider, such as government, there is also the opportunity for accessing innovations in leading practices in overseas jurisdictions. By integrating responsibility for asset maintenance and service performance into one contract, in theory it is possible to incentivise the whole-of-life service and asset management. While the theoretical case is clear, in practice the conditions necessary for PPPs to be effective are harder to meet.

Key conditions include when quality of build has great impact on service quality, when demand for the service is stable and easy to forecast, and when service quality can be easily measured so good performance measures can be used to reward

or penalise the service provider.

These are demanding conditions. Very little of what government does meets the conditions whereby performance is easy to measure and contracts easy to write. If they were, these activities have been contracted out a long time ago.

### **So why can PPPs stand for Positively Pernicious Problems?**

While New Zealand's PPPs have not been operational long enough to enable an assessment to be made, the international track record of PPPs is extremely mixed. An authoritative study of UK PPPs under the Private Finance Initiative concluded that, of over 800 PPPs in the UK, 74 projects (28% by value) experienced difficulties with 11 buyouts, 20 terminations and 43 with major problems.

There is a voluminous literature on the limits of PPPs but some of the key shortcomings identified include incomplete contracting, underservicing by the contractor, opportunism by private providers, opportunism by government, soft budget constraints, inadequate transparency, inadequate oversight, and lack of challenge – who guards the guardians when the Treasury/Ministry of Finance becomes a player driving the PPP programme?

Interestingly, only some of these shortcomings apply to New Zealand. For example, the soft budget constraint argument does not apply in the New Zealand state sector, as full legal ownership of any asset is retained by the government and assets are included on the Crown Balance Sheet. New Zealand has not experienced the serial renegotiations that have plagued PPPs in other jurisdictions. However, issues remain about the lack of transparency in the operation of PPPs and where the challenge function is undertaken in the New Zealand system (who guards the guardians?).

### **What has overseas experience with PPPs been?**

The experience with PPPs has been extremely mixed, just like that with conventional procurement. There are a wide range of studies that come to opposite conclusions about the efficacy of PPPs. I was unable to identify a meta-study or statistical review of the performance of PPPs to date. Such an undertaking is complex, as different countries have quite different PPP regimes and the effects will be different depending on the sector examined.

Two leading scholars (Hodge and Greve, 2009) report the results of a range of 'serious studies'

on whether PPPs provided value for money. Seven studies found positive effects, seven studies found negative effects, and in the final study the discount rate chosen determined whether the impact was positive or negative. The mixed empirical evidence supports neither the blatant advocacy of the proponents of PPPs nor the vehement opposition of its critics. In a world where serious studies find both positive and negative overall effects, a sceptical but positive approach is appropriate. This needs to



be based on case-by-case review, starting with a 'caveat emptor' approach.

New Zealand has taken a cautious, case-by-case approach to proposals for PPPs. Given the mixed evidence on PPPs, 'caveat emptor' seems to be the right stance to take, to steer between missing out on something positive while avoiding the mistakes others have made. While the NZ Treasury has a monitoring regime which tracks the performance of PPP projects, an evaluation would compare the PPPs' ongoing performance against a public sector benchmark or counterfactual. Once PPPs have been operational for some time, there will be a useful role for the Office of the Auditor General to conduct a follow-up study to their 2011 review. The focus of an effectiveness audit would be on how well the overall programme achieves the potential and manages the risks of PPPs.

### **Should New Zealand have more PPPs?**

This paper has adopted a 'critical friend' stance on PPPs. While the theoretical case for PPPs is clear, in practice the conditions necessary for the PPPs to be effective are hard to meet. The mixed evidence from overseas studies of value for money from PPP projects bears this out. The essence of this paper is summarised in a haiku:

*PPPs  
Controversial policy overseas  
Work fine in theory  
Sometimes fail in practice.*

# TO PPP OR NOT TO PPP IS THAT THE QUESTION?

**Playwright and columnist DAVE ARMSTRONG takes a light-hearted look at PPPs... but wonders if we are asking the right question.**

Some years ago, playing soccer in Wellington was very frustrating. A few winters with particularly heavy rainfall meant that games would be cancelled for weeks on end. Those lucky enough to play would have mud up over their ankles.

Some leagues could not even finish their seasons as the pitches were so muddy.



Then someone had the bright idea of building artificial football pitches. Not only could you play in any weather, but with floodlights you could play any night of the week. Even better, games on artificial pitches would mean that the city's grass pitches would not be over-used.

All over Wellington, overweight, middle-aged players like me were filled with delight as we realised that on these smooth artificial pitches we would be able to display our silky, South American-inspired skills, and not have to rely on the English-style, kick-and-rush football that one had to revert to in the mud. The fact that none of us could execute the manoeuvres we had seen Maradona and Messi carry out didn't matter a bit.

The only problem was how to pay for these new artificial pitches. The local council was keen, but the pitches were expensive. Luckily, a few visionary councillors and sports officials formed some partnerships. A club with some money here, some schools with some money there. It was a win-win situation. In some cases, a school paid for half the pitch and the council paid for the

other half. The schools got to use their all-weather pitch during school hours and sportspeople from all around the region got to use it after hours.

Tangential benefits, such as vandalism decreasing when a facility is used by the community, and the health benefits from increased participation in sport, were not factored into the equation, but I'm sure there were many (I will not mention the increased hospital costs from middle-aged, overweight men breaking their bones while trying to execute Pele-like bicycle kicks because it will ruin my argument).

## A happily-ever-after story

This partnering up of the public sector and, in a sense, the private sector to buy an asset neither could afford sounds simple in theory. It's true that schools and sports clubs are not exactly 'the private sector', but with such a happily-ever-after story of partnerships, why are some public-private partnerships (PPPs) so controversial?

I suspect ideology has quite a bit to do with it. Supporters of PPPs, including some Ministers in the current government, seem to think that by definition the private sector must do everything better and at lower cost than the public sector. They see wasteful public spending all around them and believe that many in the public sector are smug bureaucrats paralysed by process and regulation, yet at the same time happy to risk other people's money on expensive projects.

These same people blindly see the private sector as full of highly efficient and motivated businesspeople used to delivering projects on time and under budget. If businesses make a good profit by delivering a project effectively, who cares? The taxpayer or ratepayer gets a great deal, so everyone is happy.

Ideology also seems to rear its ugly head amongst those who oppose PPPs. Many opponents of PPPs seem to believe

that the private sector is full of callous capitalists who have little interest in the public good. Instead they want to gouge public projects for all they are worth. Yes, in some cases they might finish the project, but on the way they will pocket hefty consultancy and completion fees, making the project cost way more than if the trustworthy public sector undertook the project.

## Gone bust

However, critics of PPPs would rightly point to experiences overseas, especially the United Kingdom, where private companies have embarked on a PPP, found the going a bit tough, and gone bust. And who has had to bail the failed PPP project out? I'll leave you to work it out but it begins with 't' and rhymes with 'axe-slayer'.

Since gaining power in 2008, the National Government has been keen to implement PPPs, while the Opposition has mostly opposed them – with both sides largely arguing along the lines I have outlined above.

So far, PPPs have focused on schools, roads and prisons. The first school to be built under a PPP was Hobsonville Point in Auckland, which opened in 2013. The school was designed, built, financed and maintained under a PPP involving the private sector, but it is run by the state.

*It seems that middle New Zealand doesn't mind the private sector constructing public assets, they're just not too keen on the private sector running them.*

Education Minister at the time, Hekia Parata, lauded the partnership. She saw the deal, including the maintenance of the property being done by the private sector, as a good one. "The property must be maintained to a high standard, said Ms Parata, "effectively giving the Crown a 25-year guarantee against problems such as leaky buildings." She didn't mention

that the 'leaky buildings' fiasco was partly caused by governments and councils deregulating and putting too much trust in the private sector.

The Opposition Education Spokesperson, Chris Hipkins, was less optimistic. "The Government claims it will save \$2 million over the 25-year life of the contract by using the private sector," said Hipkins. "But to achieve these supposed savings, it spent \$3.5 million developing the business case."

*That puts those on both sides of the PPP argument in a terrible situation loathed by many New Zealanders – they will have to judge something on its merits.*

And so the arguments continue. But here's the thing: in the education sector we hear a lot about schools funded by the state and run by the private sector – i.e. charter schools – yet we hear very little about schools built by the private sector and run by the state.

It seems that if the private sector constructs an asset like a school, there's not too much of a problem. It's when they start running public assets that things can go pear-shaped. Not every charter school has been a disaster but, per child, a lot of money has been poured into them, and there have been some well-publicised failures.

It seems that middle New Zealand doesn't mind the private sector constructing public assets, they're just not too keen on the private sector running them. This attitude reminds me of an amusing poll some years ago where New Zealanders were asked what politicians they would want doing various activities.

Even though the public almost unanimously didn't want Green politician Jeannette Fitzsimons to run the economy, they voted her as the one they would most trust babysitting the kids. Winston Peters was similarly distrusted on economic issues, but overwhelming won the poll of which politician people would most like to have a drink with.

It seems that many New Zealanders are quite happy with the private sector running the construction of an asset, beating down the tradies to get a good deal, and guaranteeing the project will

be delivered on time and under budget. However, once the thing is built, could it be that they prefer sharing, caring, unionized, highly-trained and well-paid state providers to run the joint?

Nowhere does this seem truer than in our prison system. Sadly, many constructive arguments about the benefits of PPPs can be mown down with the mere mention of the word 'Serco'. This is largely because of the British multinational's running of the Mount Eden Correctional Facility, which Serco took over in 2011.

### **Ended in tears**

There were allegations of understaffing, fight clubs and other breaches of the agreement that Serco had with the Department of Corrections. It ended in tears, with Serco having to pay hefty compensation and eventually losing their contract. Government minister Sam Lotu-liga was caught in the crossfire and his demotion from Cabinet was largely due to the Serco ruckus.

Yet the prison we don't hear much about is the 960-bed prison at Wiri in South Auckland, built by the private sector and run by Serco. "A new public-private partnership (PPP) prison will provide improved facilities, better services and a tighter focus on results," boasted the government back in 2012.

A new prison at Waikeria will also be constructed under a PPP and is expected to open in 2021. The construction of the Wiri prison appears to have been successful, and after the disaster of Mount Eden, Serco has certainly kept its current operation of the prison out of the news. Fingers crossed.

So it seems that when talking about PPPs, it's difficult to generalise. Just because a project is a PPP doesn't mean it will be a resounding success, especially if the private sector is running as well as constructing it. However, nor does it mean that every PPP is an expensive disaster, and the government could rightly point to a number of projects that appear successful and cost-efficient.

That puts those on both sides of the PPP argument in a terrible situation loathed by many New Zealanders – they will have to judge something on its merits.

I suspect a project that will have a big influence on the perceived success or failure of the PPP model will be the

construction of the Transmission Gully highway north of Wellington. This, and the Puhoi-to-Wellsford highway, are two high-profile PPP motorway schemes currently under construction.

The Transmission Gully project is being built and financed by the private sector and will be maintained by them for the first 25 years as well. The project is expensive – it was always going to be – and covers some difficult terrain.

But those expecting a 'profit at all costs' approach from the private sector may be surprised. The PPP rules are such that environmental concerns, the rights of iwi and the importance of historical sites must all be taken into account. The consortium building the \$850 million Transmission Gully highway has moved wildlife, carried out environmental restoration, and registered for Greenroads accreditation. This is an internationally recognised programme for environmental sustainability and incentivises transport projects to save money, water and energy, and reduce their carbon footprint.

The Transmission Gully project has had some recent challenges – mainly to do with Wellington's weather – but if it opens on time and under budget it might alter some perceptions about PPPs. But if it opens late or runs into a financial quagmire, it could provide more ballast for those opposed to PPPs.

### **The real question**

But what irks me is this: we have one of the highest incarceration rates in a world where many countries are decreasing their prison population. Many would argue building massive new prisons is a waste of time, whether it's a PPP or not.

Wellington's \$600 million Kapiti Expressway has actually led to increased commuter times for residents. Could Transmission Gully, even if successfully completed, have the same effect? And one reason we need many new schools is that our loose zoning rules means that students travel long distances to schools, creating massive demand for new buildings in 'desirable' areas while existing 'undesirable' schools empty out.

Rather than ask whether or not we should use PPPs, perhaps the real question we should be asking is why we are building so many new prisons, motorways and schools at all?

# IMPACT INVESTING

## and public private partnerships

*PPPs have altered thinking around how major infrastructure projects can be funded. Could impact investing do something similar in the social sector?*



By Linda Meade  
Corporate Finance Partner, Deloitte

In New Zealand public private partnerships (PPPs) are usually associated with investment in large capital infrastructure assets. PPPs take many forms and can certainly ignite passionate views both for and against. But like them or hate them, there is no doubt they have resulted in some different thinking being injected into infrastructure projects.

In the 1990s, the dominant thinking was that all public infrastructure needed to be funded by government capital. By turning that thinking on its head and imagining how private capital could be applied to the development of public infrastructure, new opportunities emerged. In particular, private financing enabled the performance emphasis to switch from the asset itself to the services the asset supported, over its lifetime.

Today, new ways of thinking are having a similarly disruptive effect on the public sector. In the social sector much has been made of, and large sums of new money have been earmarked for, social investment – a cost-benefit approach to funding social programmes and tracking their effectiveness over time. Social investment is customer-centric and takes into account the long-term savings to

government, and benefits to individuals, of investing in better future outcomes.

On the surface, the idea of large-scale, up-front investment for beneficial long-term social outcomes may seem well suited to the theory behind PPPs. But traditional thinking remains stuck on PPPs really only working for large scale infrastructure. Their use has been limited in the social realm, where it is much harder to mandate the social outcomes and tie them back to asset performance.

Some attempts have been made to apply similar concepts to those which have proved successful for PPPs to deliver social services using mechanisms like social bonds. But these have proved ‘sticky’ and hard to scale up to any meaningful size. What is needed is a new way of thinking about investing for social impact that does not get bogged down in complex financial instruments.

This so-called ‘impact investment’ differs substantially from traditional funding of social services. Social investment as a concept includes impact investing, but impact investing is more focused on investing in an enterprise, or an initiative designed and developed by an enterprise, which has a new or innovative idea or approach to delivering improved social outcomes in a sustainable way. Impact investing typically requires a combination of start-up capital to get a new way of doing things off the ground, and then a revenue source to deliver the services. In concept it has more in common with venture capital than traditional social service procurement.

### A new option

The case for growing an impact investment market makes sense in a shifting government landscape moving towards wider uptake of social investment. Impact investing can provide access to new sources of funding and new sources of revenue, including

commercially generated revenues in the case of social enterprises. It provides investors – including philanthropic fund investors, as well as super funds, banks, private wealth and other categories of investor – with a new option for investment capital (via debt or equity) that provides both financial and social returns.

But many investors don’t understand how impact investing differs from traditional funding instruments. Banks do not understand social enterprise business models and are reluctant to provide capital, or need equity to take the edge off the risk. Philanthropy invests capital in a very narrow range of products. And government also faces barriers to investing capital rather than procuring services. Any investors face a high cost to understand the nature of the risks and evaluate them the first time around, meaning first movers will bear the brunt of these costs.

*What is needed is a new way of thinking about investing for social impact that does not get bogged down in complex financial instruments.*

Despite these challenges, impact investing can grow or enhance the capability, scale and scope of organisations seeking to improve social outcomes and wellbeing for New Zealanders, including through a ripple effect on existing NGOs and service providers. It can enhance the understanding of “what works” by shifting the focus from funding inputs or outputs, to outcomes. This can provide a richer dataset that will support improved social investment more generally.

In the way PPPs disrupted the traditional thinking around funding major infrastructure development, impact investing could be a game-changer for the social sector. We all stand to benefit from the social cohesion dividends this would provide.

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