Waterview Connection PPP Investigation Questions and Answers

7 February 2008

What is the Waterview Connection?

The Waterview Connection is a proposed State Highway extension in Auckland that runs from Mt Roskill to the Northwestern Motorway. The route effectively completes the Western Ring Route by connecting State Highway 20 to State Highway 16. Once finished, the Western Ring Route will be a single 48 kilometre motorway that bypasses the city and links Manukau, Auckland, Waitakere, and North Shore cities. Details about the construction of the Waterview Connection (http://www.transit.govt.nz/projects/waterviewconnection/) and the Western Ring Route (http://www.transit.govt.nz/projects/wrrconsultation/) are available from Transit New Zealand.

When is it likely to be built?

The intended completion date is 2015.

What decisions has the Government made about progressing the Waterview Connection?

The Government has decided to investigate the feasibility of progressing the Waterview Connection as a public private partnership (PPP). A PPP will be evaluated alongside conventional public sector procurement methods to determine the best-value means of advancing the project. Transit has announced that a tunnel is its preferred option for the Waterview Connection.

What is a public private partnership (PPP)? What does it entail?

PPPs are long-term contracts between the public sector and the private sector covering planning, construction, operation and/or financing of public infrastructure and services. At the end of the contract, the facility is usually returned to the government or a local authority. The Land Transport Management Act 2003 enables a concession agreement whereby land is leased to the private sector for a period of up to 35 years.

Would a PPP mean that the Waterview Connection will be privately owned?

No, the Waterview Connection will not be privately owned. One option under the Land Transport Management Act 2003 is to lease land to a private sector party, but the ownership remains with the public sector.

What are some of the potential advantages of PPPs?

Among the advantages sometimes attributed to PPPs are the following:
• better whole-of-life project evaluation and optimisation to minimise the overall costs of a project
• allocating risk to the party best able to manage it, which can significantly improve the proportion of projects which are delivered on time
• innovative approaches which enhance the quality of service delivered and/or reduce the cost to the public sector.

These advantages may or may not be achieved in individual PPP projects.

What are some of the potential disadvantages of PPPs?

Among the disadvantages sometimes attributed to PPPs are the following:
• the potential for large tendering and contracting costs
• the difficulties of ensuring good performance especially with respect to "soft" performance dimensions – for example, ensuring that all the performance specifications of a roading project can be clearly specified in a contract;
• the long-term nature of PPP contracts can be inflexible
• lack of experience and/or expertise in both the public and private sectors
• the risk that the government will have to step in if the PPP experiences financial difficulty.

These disadvantages may or may not be encountered in individual PPP projects.

Why is the feasibility of a PPP for the Waterview Connection being investigated?

The Waterview Connection will be the largest roading project ever built in New Zealand. It is important that a range of viable procurement options are considered in order to deliver value for money. It has been suggested that the Waterview Connection is an ideal project for a PPP. If this procurement method is ultimately chosen as the best-value means of progressing the project, the Waterview Connection would be New Zealand’s largest PPP.

Why not just consider conventional procurement methods for the Waterview Connection?

The Waterview Connection will be the largest roading project ever built in New Zealand. It is important that a range of viable procurement options are considered. Any PPP will be evaluated and assessed against a conventional procurement benchmark to determine which procurement method for the Waterview Connection would deliver New Zealanders the best value for money.

Who will investigate the feasibility of a PPP for the Waterview Connection?

A joint public sector-private sector Steering Group will conduct the investigation and report directly to the Ministers of Finance and Transport. The Steering Group has Sir Brian Elwood as an independent chairperson and also includes representatives from the Auckland Chamber of Commerce (Michael Barnett), Business New Zealand (Phil O’Reilly) and the New Zealand Council for Infrastructure Development (Stephen Selwood). The Treasury and the Ministry of Transport will also be represented on the Steering Group.
Why will both the public sector and private sector be represented on the Steering Group?

A PPP has to meet the needs of both the public sector and the private sector, so it makes sense for both sectors to work together from an early stage and use their collective knowledge in investigating whether or not a PPP is a feasible option for the Waterview Connection. The mix of skills and knowledge brought by all members of the Steering Group will be important. The Treasury has expertise in evaluating the efficient and effective use of public funds, and the Ministry of Transport has expertise in transport investment and development. The private sector Steering Group members will represent organisations with a strong interest in PPPs. The Chair, Sir Brian Elwood, has strong knowledge of the transport sector and public finance. He has chaired a number of public and private sector boards and served as Chief Ombudsman from 1992-2003.

What will the Steering Group actually do? What is it expected to deliver?

The Steering Group is expected to determine whether there is a viable business case for delivering the Waterview Connection as a PPP. This work includes development of a benchmark Public Sector Comparator, against which the PPP business case will be assessed. The Public Sector Comparator will include projected costs and risk analysis for the Waterview Connection if conventional public sector procurement is used.

More details can be found in the Steering Group's terms of reference.

The Steering Group is expected to find the cheapest way to build the Waterview Connection?

No. Best value for money is not simply a matter of choosing the cheapest procurement method but takes into consideration optimal risk sharing and developing the innovative solutions necessary for the effective delivery of complex projects like the Waterview Connection.

Will there be any consultation as part of the investigation?

Yes. As part of its work, the Steering Group will consult with central government departments, Auckland local authorities and other interested parties to ensure their views are taken into account. As consultation may necessarily include potential tenderers for the Waterview Connection, any such engagement will be managed openly and even-handedly. Further information about consultation will be provided in due course.

When is the investigation expected to finish?

The Steering Group’s findings are expected to be reported to the Ministers of Finance and Transport in June 2008.
Who will make the final decision on the procurement method for the Waterview Connection?

After the investigation is complete, the Ministers of Finance and Transport will make a recommendation to Cabinet. Ministers may take into consideration any other advice or material in making their recommendation.

When will the final decision on the procurement method for the Waterview Connection be made?

After June 2008, the Cabinet will then take whatever time is necessary to consider thoroughly the recommendations of the Steering Group and any other relevant factors it needs to take into account before announcing its decision.

Would a PPP mean that motorists will be charged tolls to use the Waterview Connection?

Not necessarily. The Steering Group will consider whether it is appropriate to toll the Waterview Connection but a tolling application will still need to be made to the Minister of Transport, as required under the Land Transport Management Act 2003. While tolling road users is one way to pay for the project, there are other ways, such as a service fee or “shadow tolls” paid by the government out of general taxation.

Didn’t Transit rule out tolling of the Western Ring Route after consultation?

Following public consultation, the Transit Board resolved not to progress its toll proposal for the entire Western Ring Route. The Steering Group will consider whether it is appropriate to toll the Waterview Connection but a tolling application will still need to be made to the Minister of Transport, as required under the Land Transport Management Act 2003.

Will Transit’s current work on the Waterview Connection continue?

Yes. While procurement methods are being investigated, Transit New Zealand will be consulting on its preferred design option and alignment for the Waterview Connection. The two processes are quite separate. Transit will be consulting with stakeholders and the public from 18 February about what might be built and its impact on the community.

What is Transit’s role?

Transit will have a key role in both progressing planning for the Waterview Connection and advising the Steering Group during the investigation. The Steering Group will need to determine whether Transit is best placed to progress consents for the project and to develop the Public Sector Comparator.

What does this mean for other projects like Transmission Gully?

Any projects such as Transmission Gully would have to be considered on a case-by-case basis. This investigation is focussed specifically on the Waterview Connection,
but it will provide lessons for both the public and private sectors for futures projects which could be advanced as PPPs.

**Is there legislation that enables PPPs?**

Yes. The Land Transport Management Act 2003 (LTMA) enables a concession agreement whereby land is leased to the private sector for a period of up to 35 years.

**Will the government make it easier for parties to enter into a concession agreement through the LTMA?**

This investigation assumes existing legislation, including the Land Transport Management Amendment Bill currently with Select Committee.