

Hon Bill English

Minister for Infrastructure

Hon Anne Tolley

Minister of Education



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Media Statement

School property PPP moves to next stage

The Government is taking the next step towards a public-private partnership for building and maintaining some new school property, Infrastructure Minister Bill English and Education Minister Anne Tolley announced today.

“This Government has made it clear we are open to greater use of private sector expertise where it makes sense - for example in April we signalled our intention to proceed with New Zealand's first PPP prison,” Mr English says.

“Initial investigations show that building some new school property through a PPP could also result in a modest saving over traditional methods as well as offer some educational benefits.

“This is consistent with overseas experience which shows appropriate use of PPPs can introduce new design, financing and maintenance techniques that provide better services and value to taxpayers.

“PPP also expose the public sector to new methods of asset management and procurement – helping them raise their game. That is vital if we are to ensure our children and communities get the modern classrooms and facilities they need within available resources,” Mr English says.

Officials will now prepare a stage two business case, which will include a decision on specific schools. A tender process could start early next year, subject to Cabinet approval of the detailed business case.

Mrs Tolley says PPPs have the potential to deliver educational benefits.

“The land would still be owned by the Government, while the board of trustees would remain wholly in charge of the governance and day to day running of the school,” Mrs Tolley says.

“The private sector partner would be responsible for financing, building, managing and maintaining the property for a set term. This means the school and its board could focus more on teaching and learning, without the added responsibility of managing the property.

"In addition, the private-sector partner would carry the risk around time-consuming and expensive problems like leaky buildings and be required to sort them out quickly or suffer a financial penalty.

"If a project goes ahead then trustees, teachers and communities can be assured they will be closely involved.

"Assessing the viability of a PPP has also had positive spin-offs for the Ministry of Education, including a stronger focus on price competition and assessing the cost of an asset over its whole life.

"This increased focus on long-term costs and getting the best possible price will reap benefits for taxpayers in the future, whether schools are built by traditional means or through a PPP," Mrs Tolley says.

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School PPP Questions and Answers

What exactly is being announced today?

The Government is announcing its intention to proceed to a 'stage two' business case for a public private partnership (PPP) for new school property. This follows work that began last October investigating the viability of a PPP. That work found that there was a case for proceeding with a PPP.

What is a PPP?

For a schooling PPP, it means the private sector would finance, build and maintain school property over a long-term contract – probably around 25-35 years. The operation of the school would remain the responsibility of the board of trustees. The Government would retain ownership of the land throughout and ownership of the property would revert to the Government at the end of the contract period.

What are the benefits of PPPs?

- Boards of trustees and school leadership would no longer have to worry about maintaining school property, which is the responsibility of the private partner. This allows them to focus fully on students and learning.
- Improved maintenance of school facilities to an agreed standard.
- Greater community use of facilities.
- Better value for money and price certainty for taxpayers through greater price competition and a more accurate and transparent assessment of whole-of-life costs.
- The Crown is no longer exposed to design and construction risks like leaky buildings. These become the responsibility of the private partner who must fix them promptly or face financial penalties.
- It gives officials another procurement choice which means they can better match projects with procurement options.

- It exposes officials to a range of new techniques they can apply to their asset management and procurement across the board.
- The development of PPPs in education and other areas such as corrections, may attract overseas firms to participate in the New Zealand market, bringing new skills and expertise.

What would a PPP mean for students and teachers?

There would be no significant changes for students or teachers.

So what happens next?

Officials will now put together the 'stage two' or detailed business case, which among other things will confirm which schools will form part of a PPP. If the detailed business case stacks up and is approved by Cabinet, a tender process could begin in the first half of next year. If a suitable bidder is found then construction could begin in late 2011 or early 2012.

What school or schools are you looking at for this?

It is not possible to confirm the schools with certainty until closer to tender due to the need to monitor population data to see which school will suit a PPP timeframe. The first PPP is likely to be small, but for at least two schools, as the project needs to be large enough to attract bidders and ensure value for money for taxpayers.

Could PPPs become the norm for financing and building new schools?

PPPs would not be suitable for all schools and they will only be used when they stack up against traditional procurement methods. If a PPP proceeds it will only be a small portion of the approximately \$500 million the Ministry of Education spends each year on school property.

What sort of saving would you expect to make through a PPP?

We would expect a modest saving similar to what has been achieved in Australia. For example, the value for money assessment for the Partnerships Victoria in Schools Project (2009) suggested savings of 2.6 per cent over conventional procurement. However the exact savings will depend on the size of the PPP school package and the bids received from the private sector.

What property problems are school boards currently grappling with?

Boards of trustees and school leadership are currently forced to devote a lot of time to property issues, many of which require specialist expertise. For example, 145 schools to date have been identified as having leaky buildings, with a total cost of repairs of hundreds of millions of dollars.

Under a PPP, the risk related to the cost of repairs will sit with the PPP contractor, giving them a clear incentive to get it right. If problems do arise it will be their responsibility to fix them and any drop in performance will result in deductions to their payments.

Will this mean parents are shut out of the management of school property?

No. The Ministry is currently looking at options for how the community will be involved during the next stage of the project to ensure the property reflects the culture and identity of the area. Once a PPP school opens the board of trustees would have regular contact with the PPP contractor.

What sort of safeguards would be written into the contract?

The contract will include a series of key performance indicators. If these were not met deductions would be made to payments to the PPP contractor. Ultimately the Crown will retain the right of 'step in' and terminate the agreement should dispute resolutions fail to remedy underperformance.

Would you expect NZ companies to tender for a PPP?

Yes. Initial market sounding suggests there are a number of New Zealand companies interested in a school property PPP, in addition to overseas companies with New Zealand offices and overseas companies looking to enter the New Zealand market.

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