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PIP Fund announces new investment in key health worker accommodation

The Morrison & Co Public Infrastructure Partners ("PIP") Fund is pleased announce an investment in key health worker accommodation in Victoria, Australia. This is the third successful investment for the PIP Fund which has been established to invest in community related infrastructure assets on behalf of New Zealand institutional, community and retail investors.

The PIP Fund has invested in the development and long term ownership of 120 residential apartments required for key health workers at the Bendigo Hospital. The residential scheme has an expected end value c.A$20m and has been leased for 30 years to the Bendigo Health authority. Bendigo Health is currently procuring new hospital facilities through a c.A$600m public private partnership ("PPP") and requires modern, fit for purpose residential accommodation for short tenure staff and visiting professionals.

The transaction fits the PIP Fund's investment criteria which targets long term, low risk government backed cashflows. The lease structure provides for annual inflation indexation. The PIP Fund completed New Zealand's first PPP transaction in 2012 with the Hobsonville Schools transaction, it currently owns 50% of the Melbourne Convention and Exhibition Centre.

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About the Public Infrastructure Partners LP (PIP) Fund

- The PIP Fund was established to invest in infrastructure assets through PPPs, with a specific mandate to seek opportunities to invest in New Zealand infrastructure projects.
- Its current PPP investments are as a member of the LIP consortium, and as an equity partner in the consortium that runs the Melbourne Convention Centre under a PPP contract.
- Many New Zealanders are investors in the PIP Fund either directly or indirectly through their investments in the PIP Fund's owners – the New Zealand Superannuation Fund, New Zealand Social Infrastructure Fund (NZSIF), and a number of local community trusts.
- The PIP Fund is managed by Morrison & Co, the New Zealand infrastructure investment firm best known for establishing and managing Infratil.

Procurement models

- A number of different models are used by the Government for procuring new public infrastructure assets. Among the most common are:
  - "Cost plus" contracts under which a contractor charges the Government for the cost of work done and adds a profit margin. These contracts do not always provide sufficient incentive for the private sector partner to deliver projects on time and on budget.
  - "Design and construct" contracts under which private sector partners (e.g. construction firms) are engaged to deliver specified services, for a fixed price, which is paid by the Government when construction milestones are reached. Under these contracts there are not always strong incentives for the private sector partner to use robust building materials that will ensure the long-life of an asset if they are expensive or difficult to use during the construction period.

About Public Private Partnerships (PPP)

- PPPs are another procurement option. Under a PPP, private sector partners design and build assets with a focus on their full useful life – a "whole-of-life" approach. The private sector puts up the capital for the project and then operates the asset over an extended defined period (a "concession"), recovering the initial construction costs and ongoing financing and maintenance costs through regular, fixed payments. At the end of the life of a concession, the asset usually reverts to Crown ownership. The only way for the private sector partner to ensure it recovers its costs under this model is to ensure that the asset performs over its entire life.
- Finance is included in the PPP model so that the profit associated with creating an asset can only be earned if the asset performs over the long term. For example, if an asset procured under a PPP fails to deliver at the required standard after 10 years, the Government can cease paying for it. Under traditional procurement models the private sector partner would have received its profit, and any defect guarantee would have lapsed.
- PPPs are about delivering outcomes, not cost savings in an absolute sense. As such they can be the best approach in terms of "Value For Money", which is a key focus for the Government. Some of the key benefits of PPPs in this respect are:
  - There are much stronger incentives for the private sector partners to complete projects on time or early, and within budget, than under traditional contract models because of how risk is allocated.
  - The ability to delay/withhold payments puts the Government in a stronger position if a project is not meeting its performance standards.
  - Government/local Government can spread the cost of new assets over an asset's life, enabling more infrastructure projects to be delivered faster and delivering better intergenerational equity.
  - Better value is delivered through greater transparency about the whole-of-life costs of public assets and incentives for more effective management of them. Under traditional procurement methods there is an incentive to cut back on maintenance to meet short term budget constraints, which can become habitual and lead to degradation of infrastructure.
  - The private sector partner is responsible for all maintenance of the public asset, which means doctors, teachers, police and others can focus on their core specialisation, rather than on facilities issues.

There are many examples around the world of where PPPs have been used successfully to achieve respective Governments' objectives, such as the UK's major programme of school renewal in the 1990s. This is not only notable in terms of the scale and pace of the renewal programme, but also in terms of the delivery of improved learning outcomes through better learning environments and freeing up teachers' time to teach, rather than deal with facilities issues.

PPPs in New Zealand

- As a relatively late adopter of PPPs as a procurement option, New Zealand has the advantage of being able to learn from experience in other parts of the world, improving on the best elements and avoiding the pitfalls.
- There are currently two major infrastructure projects that have been procured under a PPP:
  - The Wiri correctional facility in Auckland, which in partnership with the Government will be built and managed by the SecureFuture Consortium. The private sector members of this consortium are: Fletcher Construction, Serco, Spotless Facility Services, and equity partners.
  - Hobsonville Point Schools in Auckland, which in partnership with the Government will be built and managed by the Learning Infrastructure Partners Consortium (LIP). The private sector members of this consortium are: Public Infrastructure Partners LP, Hawkins Construction, and Programmed Facility Management, with Westpac as senior debt provider.
- The Government has signalled an interest in exploring PPPs as a procurement method for other infrastructure assets in a range of sectors (including roads, health, education, housing, technology); all Government departments are required to consider alternative procurement models including PPPs for all projects that will have a whole-of-life cost of more than $25 million.

About Hobsonville Point Schools (being delivered by the LIP Consortium under a PPP contract)

- Hobsonville Point primary school (years 1-8) opened for all levels in term one 2013 and Hobsonville Point secondary school (years 9-13) will open in year-level stages from term one 2014.
- The primary school will accommodate 690 students and the secondary school will accommodate 1,500 students, based on Ministry of Education demographic and needs analysis. There is already high demand for the Hobsonville Point Schools – an Establishment Board of Trustees meeting in June 2012 attracted over 140 parents and teachers.
- Under the PPP contract, LIP is responsible for any maintenance issues for the 25 years of the contract, which effectively provides a 25-year guarantee on the buildings and means that the Board of Trustees and school leadership team are freed-up to focus on teaching and learning outcomes rather than on property and maintenance issues.