



INNOVATION SPOTLIGHT

DESIGNING A  
PUBLIC-PRIVATE  
PARTNERSHIP TO  
DELIVER SOCIAL  
OUTCOMES

New Zealand's Auckland South Corrections Facility at Wiri

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# FOREWORD

This is a critical moment for the public sector to design new finance mechanisms that can deliver outcomes. Over the last decade, there has been a global movement to develop innovative mechanisms, such as pay for success or social impact bonds, which have mainly focused on improving social service delivery programs. While these models are important, the Beeck Center and John Laing Group wanted to assess how other finance mechanisms have been structured to improve social outcomes through government-contracted, public-private partnerships that can have social impact. The global need for critical infrastructure provides an important opportunity to re-assess and re-define public-private partnerships to both deliver social outcomes and be “bankable” for the private sector. Governments have an opportunity to challenge traditional finance models and develop innovative financing mechanisms to solve for infrastructure and achieve societal outcomes.

## What does it mean to finance public infrastructure for outcomes?

To answer this question, and to illustrate how one government approached this challenge, we decided to study one of the leading global examples of outcomes-contracting for infrastructure: the public-private partnership at the Auckland South Corrections Facility at Wiri in New Zealand (ASCF). We wanted to better understand how a government in search of solutions to improve infrastructure and social service delivery was experimenting with new approaches to maximize private capital and leverage policy innovation to produce greater social impact. Is it possible for government to build and finance infrastructure projects—such as prisons, roads, schools, water, and hospitals—that are designed to not only operate efficiently, but to also deliver improved social services? How can the public sector incent the private sector to build and operate quality infrastructure that improves lives? What would compel the private sector to direct its

capital, in all of its forms, toward such a project? What would the metrics be and how would payments be structured? These are the questions we asked of the New Zealand government, private sector partners including the John Laing Group (a financier that forms part of the consortium created for the ASCF contract), and the community in New Zealand.

Our goal in presenting this innovation spotlight is to share policy insights with a particular emphasis on understanding the government’s innovative approach to public-private partnerships and the role of the private sector to deliver on outcomes. In developing the spotlight, the Beeck Center was able to observe and assess the social investment policy on the ground in New Zealand, particularly focusing on the Fifth National Government’s Public-Private Partnership policy at ASCF. We surveyed approximately thirty key stakeholders across sectors in Auckland, Wellington, South Island, and the United States. The John Laing Group, which partially funded this research, also provided interviews regarding private sector motivation to bid for the PPP at ASCF and risk assessment. We sought to learn about and document this innovative finance mechanism from a policy lens, with the aim of communicating its benefits and challenges to a global audience of government and private sector leaders.

We learned that a true outcomes-based approach can tackle multiple problems at the same time. The innovation spotlight provides insights on how the previous New Zealand government evolved its role from simply contracting for a prison to changing the procurement process and the mindset to address a significant social problem, to quantify outcomes, and to structure a regime to pay for performance. Hence, the payment to the consortium that financed and operates the facility is contingent upon the measurable achievement of social outcomes. The report offers some lessons from New Zealand that can be iterated upon and applied in the delivery of social infrastructure needs in other sectors and countries.

**At the Beeck Center,** we believe that market mechanisms can help society deliver better outcomes and achieve financial returns. As demonstrated in this spotlight, to do so requires government and the markets to re-think their roles, more clearly define outcomes from the outset, and learn from each contract. In this case, we focus on public-private partnerships because they need to be modernized. Chasing the lowest bidder contracts through procurement has led to misaligned incentives. For instance, prisons being paid on per-bed costs (rather than reforming prisoners and preventing their return), roads that are paid for staying open (rather than for reducing accidents and eliminating fatalities), or water systems paid for just delivering water (rather than providing clean water). This has led governments down a rocky path where short-term wins have created immense social infrastructure gaps—unclean water, unsafe roadways, or overcrowded prisons.

Today, the private sector has the opportunity to help government overcome infrastructure needs by providing solutions. By contracting for social outcomes, New Zealand's Fifth National Government provided an informative example of how government can better share the risk of public service delivery with the private sector. This, in turn, delivers bankable, public-private partnerships that also achieve measurable results that improve society. This is a major break from the norm, and a first example of how to link infrastructure, social outcomes, and a return on investment. The crisis of broken public systems, from infrastructure to social services, presents an opportunity for governments and investors to take a more innovative and outcomes-focused approach to infrastructure development. We have a moment in time to make different choices, to try new approaches, collect the data, adapt and achieve results. The magnitude of the challenges requires a radical shift in thinking and bold action. We sincerely hope this innovation spotlight provides a path forward for governments seeking to test new approaches to pay for success.

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## EXECUTIVE SUMMARY

In recent decades, significant innovations have been made in public-private partnerships (PPPs) for infrastructure and social services. Governments and international financial institutions have created new finance mechanisms to invest in infrastructure projects, producing better results by moving toward performance-based contracting. To do this requires crosscutting practices, in which government clearly defines problems to be solved as well as the desired outcomes, redefines partnerships and risk, works across silos, changes procurement, thinks adaptively, and, most importantly, invests in people and institutions to operate differently. Solving problems is not just about the tools and finance structures; it is also about changing the mindset and the operating model.

To better understand how government leaders can finance these projects for outcomes, the Beeck Center for Social Impact + Innovation at Georgetown University studied a global example of outcomes-contracting for infrastructure: New Zealand's Auckland South Corrections Facility at Wiri (ASCF). The goal was to document how a government is experimenting with policy innovation and outcomes-based contracting to increase social impact.

In developing the study, the Beeck Center had the unique opportunity to conduct in-depth research on the ground in New Zealand. We conducted over thirty interviews with key stakeholders from the public, private, nonprofit, and academic sectors in Auckland, Wellington, South Island, and the United States. We also surveyed the John Laing Group, which helped fund this research, to better understand its motivation to bid for this project and its risk assessment. As a university center with a public policy focus, the Beeck Center wanted to highlight the benefits and challenges of this innovative PPP to a global audience of government and private sector leaders.

The study provides insights into how New Zealand's prior government administration, the Fifth National Government, built policies to support PPPs and evolved its procurement process to define a significant social problem, quantify outcomes, and structure a pay-for-performance contract in partnership with the private sector. The research produced four key lessons for governments and private entities considering PPPs:

- 01. Create cross-government performance targets for social outcomes.** Government leaders worked best when they were held collectively responsible for solving a shared problem tied to measurable performance targets. Clearly specifying cross-agency social outcome goals was essential to ensure support during the procurement process and for ongoing performance measurement. Shared outcome goals guided the development of detailed financial terms in the contract and limited miscommunications among stakeholders.
- 02. Build PPP expertise inside government.** New Zealand's investment in a PPP program office helped make PPPs a viable option for infrastructure projects. The Fifth National Government issued a policy requiring all proposed infrastructure projects greater than NZ\$15 million to present a PPP business case in addition to conventional approaches.<sup>1</sup> The program office acted as a catalyst for PPPs by providing training and support for agencies working with the private sector.
- 03. Incorporate social outcome KPIs into the contract.** Key performance indicators (KPIs) help to support the project's social outcome goals. These goals are supported by a performance regimen that balances fixed payments for construction and core operations with variable payments based on meeting social outcome measures. A balanced approach ensures that the project will attract capital investors. Even with limited financial upside or downside in the contract for achieving social outcomes, KPIs can have a significant impact on how the private partner designs and operates the facility. This was especially important at ASCF, because the private sector was responsible for designing the solution that would achieve the desired social outcomes. In addition to capital, the private sector had to bring new ideas and innovation to the project.
- 04. Make the project a bankable deal for the private sector partner.** PPPs work best for large projects with predictable service requirements. Engaging with the market early in the procurement process helps to gauge market interest in the project. Before issuing the request for proposal (RFP), meeting again with potential private sector partners helps set expectations and provide time for the private sector to form a coalition. This creates an opportunity to define and develop a real case for return on investment that works for all parties. Assigning a government procurement auditor to the team helps mitigate compliance risks.

New Zealand's ASCF project provides an example of how government can share the responsibility of public service delivery with the private sector. The Fifth National Government understood that in addition to bringing private capital to the table, the private sector could also provide innovative solutions for achieving national policy goals. The approach is another option for global leaders to consider as they work to link infrastructure, social outcomes, and return on investment.

# BACKGROUND

## NEW ZEALAND'S ENABLING LEGISLATIVE ENVIRONMENT

In 2008, New Zealand, like many countries, was facing the fallout from the global financial crisis. The government faced declining revenues and the need to limit public spending. Ministers were looking for ways to increase the effectiveness of public services within the constraint of fixed baseline budgets.<sup>2</sup>

To foster innovative financing ideas, the Fifth National Government established a National Infrastructure Advisory Board and appointed a minister for infrastructure to “reshape, coordinate, and oversee infrastructure objectives.”<sup>3</sup> The following year, a National Infrastructure Unit was created within the Treasury. This unit (later renamed the Public Private Partnership Programme Office) played a key role in supporting Public Private Partnerships (PPPs) in New Zealand. The unit guided government agencies when preparing PPPs and cultivated the private sector market for PPPs.

As the previous New Zealand administration invested in growing the government's PPP capabilities, it also continued to evolve its system of interagency performance targets. During the Auckland South Correction Facility (ASCF) project's contract development phase, the Fifth National Government published the Ten Results in 2011. The Results identified ten important cross-agency problems and set a challenging five-year target for each social outcome. Leaders of agencies were collectively responsible for achieving the targets with progress reported publicly every six months.

The Justice sector was accountable for achieving Results 7 and 8, to reduce the total crime rate and criminal reoffending. The Ten Results represented New Zealand's commitment to results-based policymaking and built new capabilities to capture and manage social outcomes metrics across the prior government.<sup>4</sup>

The combination of a financial crisis, investment in PPP expertise within the previous government, and an increased emphasis on cross-agency performance measurement fundamentally shaped New Zealand's PPP approach to infrastructure. The expectation that social outcomes must be delivered by all agencies was coupled with a belief that the large-scale project should pursue the best model possible, leveraging public and private sectors in whatever combination could deliver the best outcomes. It was within this environment that New Zealand pursued its first major PPP infrastructure project designed to deliver measurable social outcomes: the Auckland South Corrections Facility at Wiri.



## NEW ZEALAND'S PPP MODEL

Internationally, the history of public-private partnerships spans roughly two centuries and includes a range of models. In fact, PPPs were first used in Europe around the time of the Industrial Revolution to build railways, water channels, and roads. Since then, other countries across the globe have adopted variations of this model to tackle a variety of challenges across sectors. The definition of a PPP adopted by New Zealand is:

*A long-term contract for the delivery of a service, where the provision of the service requires the construction of a new asset ... that is financed from external (private) sources on a non-recourse basis, and where full legal ownership of the asset is retained by the Crown.*<sup>5</sup>

Several characteristics differentiate this PPP model from conventional procurement approaches:<sup>6</sup>

- The government specifies service outcomes to be delivered, rather than detailing requirements for how a facility is built or what services will be delivered.
- A single, long-term contract with a private partner covers the full life cycle of the project, rather than many smaller contracts with different vendors procured over time.
- Some risks are transferred to the private sector partner because it can better manage them to meet outcomes, such as managing facility construction or optimizing the mix of services provided.
- The private sector partner is paid periodically (typically monthly or quarterly) only once the facility is operational and with incentives and penalties based on achievement of service outcomes.

New Zealand's PPP model adopts a "more for the same" approach to value for money. A project procured using a conventional approach will incur a certain level of expenditure. PPPs seek to maximize the outcomes that can be achieved for that cost. This is different from a "same for less" or a low-cost bidder approach seen in other procurement models. New Zealand used PPPs under the Fifth National Government when the business case indicated that they could cost-effectively improve outcomes by transferring risk to and capturing innovation from the private sector.<sup>7</sup>

The ASCF project significantly evolved New Zealand's PPP model by incorporating service outcomes-based on social impact goals into the contract. Traditionally, government procurement for social service delivery has been based on volume of services rendered and short-term outputs (such as beds filled), but the ASCF contract introduced the possibility of procuring for longer-term social outcomes. In the case of the ASCF project, this included setting measurable social goals, such as improving outcomes among Māori prisoners at Wiri and reducing their rates of recidivism by at least 10 percent below the average of other prisons,<sup>8</sup> and the procurement process cultivated novel solution proposals from the private sector. The focus on social outcomes had a major impact on the prison's design, operations, and rehabilitation services.

# THE AUCKLAND SOUTH CORRECTIONS FACILITY AT WIRI

## INNOVATIVE PROCUREMENT AND A SOCIAL OUTCOMES-FOCUSED PPP

Faced with an aging national prison network and high rates of prisoner reentry, the previous New Zealand government announced in 2010 that it intended to commission a new prison at Wiri, in South Auckland. The new prison would need to be designed and built cost-effectively and support the Fifth National Government's goal for all existing prisons across the country to reduce recidivism by 25 percent.<sup>9</sup> The project sought an innovative approach that would help solve the New Zealand Department of Corrections' infrastructure challenge and potentially help improve the performance of the corrections system overall.

In response, the Department of Corrections and the Treasury's National Infrastructure Unit contracted the country's first PPP for a prison and built the Auckland South Corrections Facility at Wiri (ASCF). SecureFuture Wiri Ltd. (SecureFuture), a private sector consortium, was awarded a custodial contract by the New Zealand government in 2012. The consortium would arrange for the financing for the design and build of the prison on land owned by the government. SecureFuture would go on to operate and maintain the prison and provide rehabilitative services to prisoners over a 25-year period.

**Construction was completed at a cost of NZ\$300 million, and prisoners were located at the facility in 2015.** The 960-bed institution can accommodate high-, medium-, and minimum-security male prisoners. Further, it is designed to reduce recidivism and improve social outcomes for the Māori, the indigenous people of New Zealand, who make up 50 percent<sup>10</sup> of the country's prison population.

Unlike a "lowest qualified bidder" approach, the procurement process with the prior government was highly collaborative, focusing on creating incentives that would bring private sector capital and innovation to meet the social outcome goals. The request for proposal (RFP) developed by the government asked private sector partners to present solutions that would achieve three goals:

- 01.** Reduce recidivism among the Māori prisoner population by at least 10 percent more than other prisons in New Zealand
- 02.** Maintain prison safety
- 03.** Achieve reintegration and social outcomes for Māori prisoners

While many elements of the PPP for this project are conventional, the social outcomes requirements, the accompanying performance regime, and the latitude left to the private sector to design a solution all represent a significant innovation in international PPP approaches. The ASCF contract reflects a "full service" approach, in which the private sector finances and delivers the prison facility and assumes responsibility for delivery of services to prisoners.

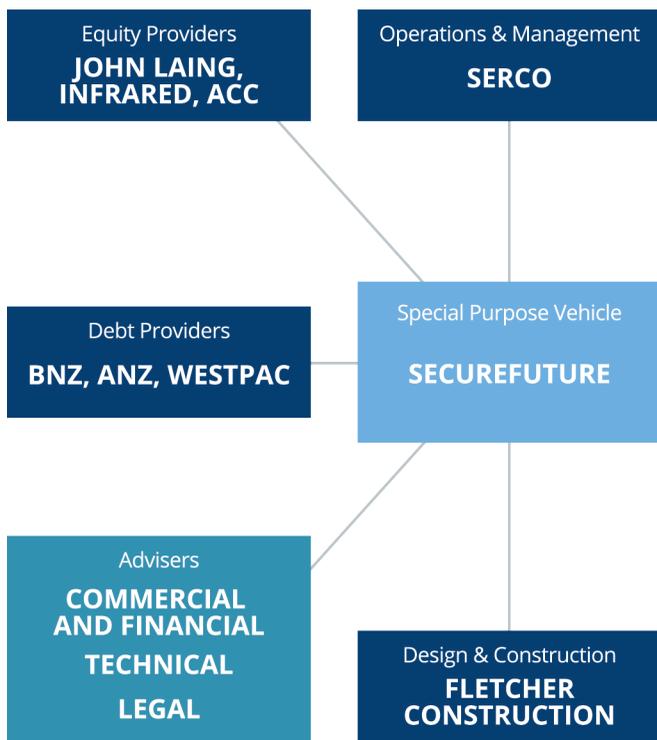
In accepting the contract, SecureFuture agreed to take on the goal to rehabilitate prisoners, a service that before would have been assigned to a social service agency. While the government placed minimal constraints on how outcomes are delivered, there are clear performance benchmarks with financial implications for performance. SecureFuture's facility operator, Serco, receives payments or penalties based on how well the facility achieves the shared goals of reducing recidivism, improving prisoner safety, and delivering better outcomes for Māori.

For New Zealand, this first prison built and operated through a public-private partnership was an opportunity to determine if contracting for outcomes could drive a private partner to meet social goals. This project explored new approaches for engaging with the private sector and building a performance measurement system that could be leveraged across the wider prison network.

Results for 2016 to 2017 are “consistent with contractual expectations and with progress of a newly established prison,” according to the Department of Corrections.<sup>11</sup> The annual report for the prison notes that there was a low level of financial penalties for this period at less than 0.5 percent of its operating budget (\$118,727). Under the contract with SecureFuture, ASCF began to be measured on reducing reoffending outcomes starting in July 2017, and results will be available in late 2018.

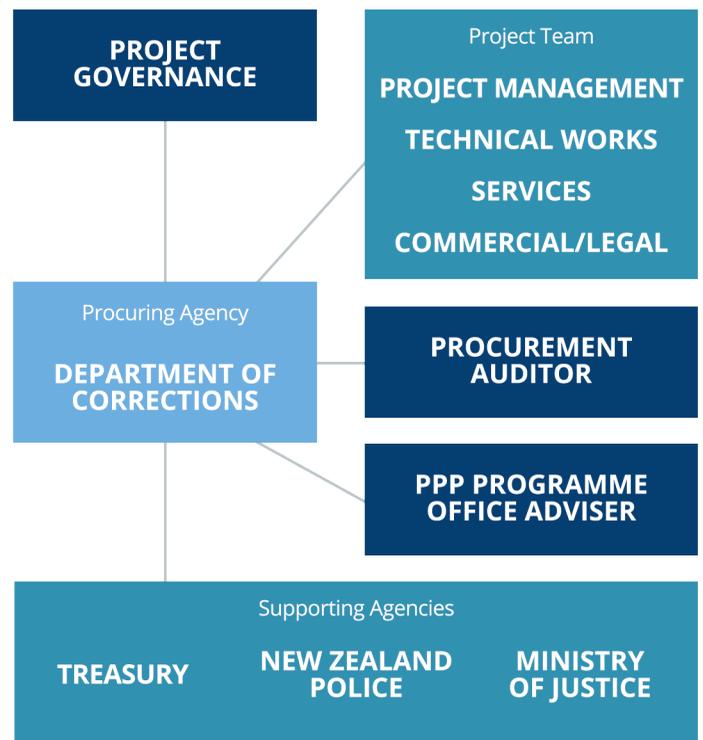
### ASCF PROJECT TEAM STRUCTURE AT FINANCIAL CLOSE

#### PRIVATE SECTOR PARTICIPANTS



SecureFuture was a legal structure created for the ASCF contract that aggregated the various private sector stakeholders involved. Advisers provided expertise throughout the process in key areas.

#### PUBLIC SECTOR PARTICIPANTS



A full lifecycle PPP like ASCF requires greater up-front investment of time and resources than a conventional project. A dedicated project team and cross-agency governance group are required. Advisers also provide expertise throughout planning and implementation.

## SOCIAL OUTCOMES-FOCUSED DESIGN, OPERATIONS, AND SERVICES

New Zealand's PPP procurement process minimizes constraints on private sector bidders in their proposals to encourage innovation solutions. It does this by setting target outcomes rather than specifying specific inputs. The Department of Corrections worked with the Treasury's PPP Programme Office to identify and define the target outcomes for the ASCF facility, then issued an RFP that provided a general framework of service and social outcome goals. Bidders were expected to describe their approach for achieving outcomes in the design and operational strategy for the prison. Unlike conventional procurement, the government sought solutions to a problem, not a negotiated fee to deliver a specified facility or service.

The Department of Corrections reviewed proposals and chose the private sector partner, SecureFuture. The firm met two baseline requirements: a consortium of large, stable companies with proven experience and competitive pricing. The bid was projected to result in at least 10 percent savings over the life of the contract versus conventional public sector procurement.<sup>12</sup> Beyond these criteria, SecureFuture won because its design focused on meeting the social outcome goals of reintegration and reduced recidivism throughout the project life cycle.

SecureFuture expressed a reintegration strategy starting with the physical design of the facility. The layout was conceptualized around the idea that each part of ASCF would be "woven tightly and securely together with a future focus." Many prisoners begin their stay in high-security Houseblocks located farthest from the entrance, near facility management buildings (heating, waste disposal, laundry, etc.). As they move closer to release, the prisoners transition to self-care, apartment-style Residences. These Residences are closer to the visitors center, cultural centers, and, symbolically, the front gate of the prison.

Buildings are positioned to provide views beyond the prison to the Maunga, a hill or mountain of immense importance to the Māori tribes (*iwi*) in the Wiri area. This was among many culturally specific design features at ASCF that aim to reconnect Māori prisoners with their cultural heritage. The goal is to foster a sense of community and belonging among prisoners with the hope of reconnecting them with their broader community upon release.

The social outcomes focus also affects operational policies at ASCF. Officers at the prison are trained to follow a "decency and respect agenda." They are encouraged to address prisoners by their first name or their title and last name. For example, John Smith would be addressed by officers as John or Mr. Smith, but not Smith. To maintain a future focus, prisoners wear plain clothes when they meet family members in the visitors center. The visitors center itself is a large high-ceiling multipurpose room more like a school than a typical prison visiting area: outdoor access and play area for children, soft-sided chairs, and bright colors – with only a limited number of metal tables with chairs fixed to the ground, which are used only for higher risk prisoners. In addition, prisoners at ASCF have greater access to technology and are expected to assume more responsibility for self-care.



Rehabilitation services provided to prisoners focus on reintegration. Officers are trained to identify not only residents who are ready to transition to lower-security housing, but also candidates for reentry programs at ASCF. Prison operators engage with local businesses to allow inmates to gain work experience. Evidence of the success of this initiative includes some prisoners who, after their release, were offered full-time jobs with the industry partners they worked for while in ASCF. Although job training and work-release programs are relatively common among contemporary prison facilities, ASCF's performance regimen adds extra scrutiny about which programs are contributing most to the recidivism goal.

Further innovation has included the establishment of a multidisciplinary mental health focus within the "*whare ora* unit," or "house of health unit," for the most vulnerable and

at-risk prisoners. This initiative has included the publication of an academic paper on traumatic brain injury, in partnership with the New Zealand Breakers basketball franchise, linked to numeracy and literacy qualifications. This has been further complemented by a rugby league academy, with a program based on twelve principles to enhance self-esteem and confidence.

Individually, none of these features is extraordinary compared with other facilities within New Zealand or globally, and determining how much each feature contributes to achieving key performance indicators (KPIs) within the contract is challenging. Nevertheless, ASCF demonstrates that a social outcomes-focused performance regimen can have a significant impact on an infrastructure project throughout its life cycle.

## LESSONS LEARNED: CONDITIONS FOR SUCCESS

Based on study of the ASCF project, the research team developed lessons learned in four areas. These insights are aligned with the work that has been undertaken in this area by the New Zealand Treasury's Public Private Partnership Programme Office.<sup>13</sup> The goal of this section of the report is to highlight critical success factors for the ASCF project that may be beneficial to future projects in other sectors and countries.

### 01. CREATE CROSS-GOVERNMENT PERFORMANCE TARGETS FOR SOCIAL OUTCOMES

New Zealand has a long history of experimenting with government policies and organizational structures to improve social outcomes. In 2010, when the ASCF project began its procurement process, the Justice sector of the government had a cross-agency team focused on reducing recidivism. The following year, the government published Ten Results that identified ten important cross-agency problems and set targets for each. These policies and shared performance targets were key enablers for the ASCF project.

Clearly specifying cross-agency social outcome goals was essential for a large, long-term PPP project like ASCF. Shared goals aligned the Fifth National Government's leadership around the project and helped to ensure support from different agencies. The Treasury, Ministry of Justice, Department of Corrections, and New Zealand Police worked together to identify the social problems the project would target and defined outcomes it wanted public partners to work toward. Goals for reducing recidivism and achieving better social outcomes for the Māori were key to capturing innovative ideas from the private sector through its design proposals.

After choosing a preferred bidder, the social outcome goals were the starting point to drafting a detailed performance regimen for the contract.<sup>14</sup> This required establishing performance metrics and data standards that would be supported by all agencies involved and the private sector partner. Shared outcome goals served as guidelines for drafting detailed financial terms and avoiding miscommunications among stakeholders.

## 02. BUILD PPP EXPERTISE INSIDE GOVERNMENT

The National Infrastructure Unit created within the Treasury played a key role in supporting the ASCF project and other PPPs in New Zealand. This unit (later renamed the Public Private Partnership Programme Office) led efforts to adopt policies to make PPPs more of an integral part of the prior government's procurement system. For example, this group supported the adoption of a policy that requires all infrastructure projects greater than NZ\$15 million to develop a business case for a PPP as well as a conventional procurement.<sup>15</sup> The PPP option is compared with the conventional procurement using a "Public Sector Comparator" assessment that determines whether the project can be completed using a PPP at the same or lower cost and achieve better outcomes.

The PPP Programme Office also guides agencies within the government when they are considering PPPs and supports the procurement process. Its experience in cultivating the private market's interest in potential projects helps to remove barriers to procurement and facilitate the negotiation process. See Appendix A for a list of policy documents the office developed to support training of agency staff and potential private sector partners.

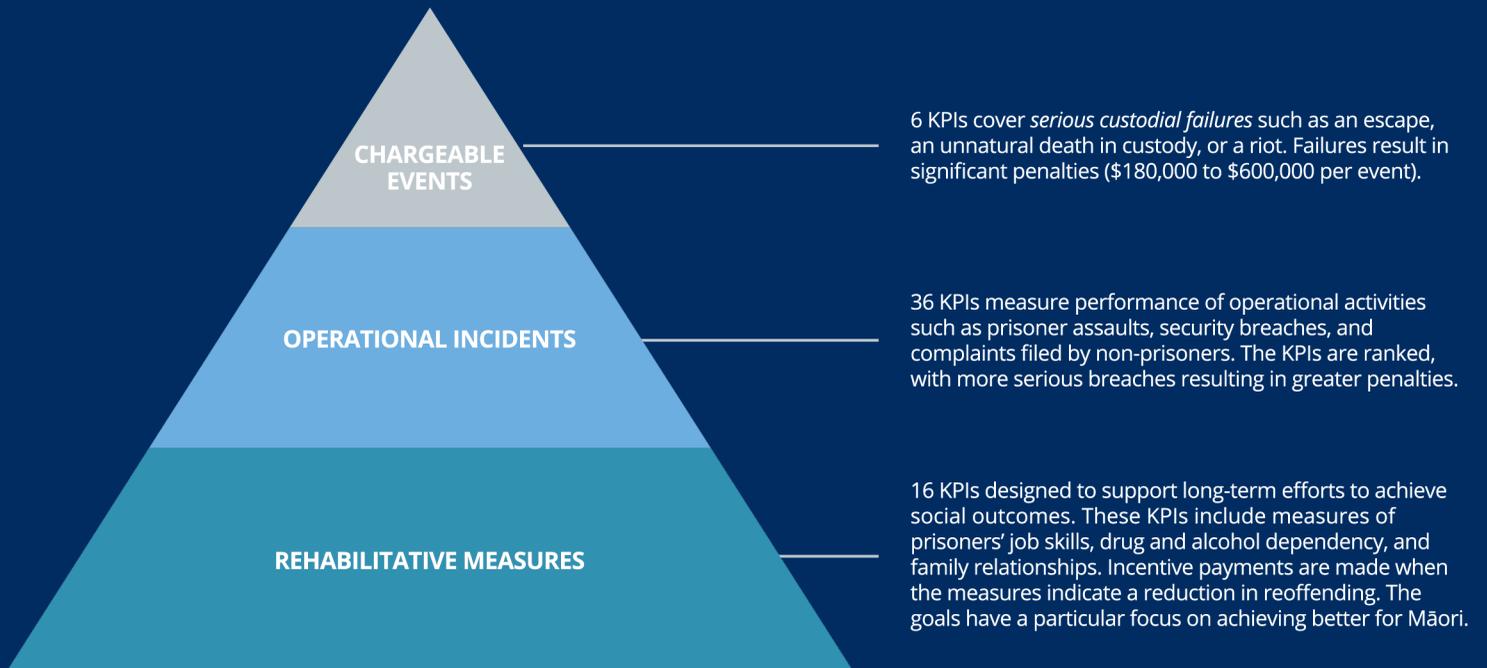
New Zealand's investment in PPP expertise has helped to make this procurement model one of a range of options available for government projects. The policy requirements for PPPs to be considered for large projects in combination with a systemwide training program were key to this transformation.

## 03. INCORPORATE SOCIAL OUTCOME KPIs INTO THE CONTRACT

Although many large government service contracts include targets and adjustments for performance, few have managed to incorporate long-term social outcome goals. The prior government's project team and private sector bidder collaborated for months to agree on specific metrics, their ranking, and the financial impact that missing or meeting each target would have on payments. This performance regimen was among the most complex aspects of the project and expands the portfolio of global PPP models that government leaders can reference when planning future projects.

A key component of the contract's performance regimen involved measuring Serco, SecureFuture's contracted prison operator. In addition to conventional monthly reporting of operational activities and spending, Serco must track and report on a set of KPIs, with the Department of Corrections' on-site monitoring team ensuring statistical data integrity. The KPIs are designed to meet the three outcome goals set at the beginning of the project: reduce recidivism, maintain prison safety, and achieve reintegration and social outcomes for Māori prisoners. Payments are adjusted based on KPI performance. Missing KPI targets results in penalties. Meeting or exceeding KPI targets triggers incentive payments.

## KEY PERFORMANCE INDICATORS FOR THE ASCF CONTRACT



More complexity was added to account for the operator's performance over time, not just in a single quarter. Service Failure Points accrue from any KPI failure and affect how new failures are handled. For example, a single failure after several periods of acceptable performance may not result in a penalty. However, repeated failures result in increasing financial penalties and trigger new reporting obligations and a requirement to document plans to rectify the issues.

Since ASCF began operating, the financial penalties have been a very low percentage of its funding (less than 1 percent).<sup>17</sup> Part of the reason for the small amount in fines is that the prison has been performing effectively. At the same time, the actual financial risk and potential reward for SecureFuture's performance in achieving social outcome goals are relatively modest. A large part of this comes from the requirement to make this a "bankable" deal for the private sector. Investors would have been unwilling to back a project that created too much variability in their return on investment. To put more penalties into the contract

for missing social outcome KPIs would have required the government to offer more upside for achieving them. An aggressive risk-reward profile in a PPP contract is inconsistent with the philosophy of most governments, even for an innovator like New Zealand.

Although limited financial incentives are tied to the social outcomes portion of the performance regimen, the system still has significant potential benefits. The social outcomes focus throughout the project life cycle encouraged critical thinking about all phases of the project from facility design to operations to the mix of rehabilitative services. Without the effort involved to define and prioritize social outcomes, it is unlikely the project could maintain this focus over its 25-year agreement. In addition, the Department of Corrections saw the ASCF project as a catalyst to improve social outcomes measurement of service delivery across the entire corrections system and a source of potential new programs for other prisons.<sup>18</sup>

## 04. MAKE THE PROJECT A BANKABLE DEAL FOR THE PRIVATE SECTOR PARTNER

Although the public sector is clearly committed to improving social outcomes through its work, understanding the best way to engage the private sector in sharing this goal through partnerships remains challenging.<sup>19</sup> The ASCF contract provides an example of a large project that succeeded in structuring a deal that was bankable for the private sector. Ensuring that the project would attract a range of innovative solutions from the private sector started with selecting a project that fit well with the PPP model. Key characteristics of the project include:

- **A large project with a long duration of service.** ASCF was a large contract, with a \$300 million construction cost<sup>20</sup> and up to an additional \$600 million to be paid over the 25-year custodial operations agreement.<sup>21</sup> The scale of this agreement was important to help defray the costs of legal, finance, and contract management resources that the private sector needed to apply during the procurement process.<sup>22</sup> A larger project also allows the nonvariable payments for construction and basic operations to be substantial enough to offset the potential risk of penalties from failing to meet social outcome targets. The private sector is willing to share some risk, but too much will deter investors.
- **Service requirements that are predictable over the life of the contract.** As private sector partners work out financial projections for their potential investment, it is important that the performance targets and services that will be provided to meet them will remain stable over the life of the contract. A prison was a good fit because of the predictability of the demand and a well-understood view of the kinds of services prisoners would need.

The New Zealand PPP model also requires gathering feedback from the private sector at key stages of procurement. Early in the process, the procuring agency team meets with a representative sample of potential private sector partners. These meetings confirm that there will be enough potential bidders for the project and create a space for gathering feedback on the overall project direction and strategy. Shortly before issuing the RFP, another set of meetings is held with the sample of potential partners to review the government's proposed project. These later meetings ensure that when the RFP is released, it aligns with what private sector bidders were expecting and provides additional time for them to form consortiums of credible partners to make proposals.<sup>23</sup>

Working with the private sector to create a bankable deal can be a balancing act for the public sector team. While gathering feedback from the market to shape the RFP is critical, these activities have the potential to conflict with government procurement compliance requirements designed to prevent waste, corruption, and local protectionism. New Zealand has a code of Commonwealth Procurement Rules that all agencies must follow when they procure goods and services.<sup>24</sup> To support the PPP process, a compliance auditor is assigned to the project to manage this process. The primary role of this auditor is that of "probity adviser," to ensure that the process is fair and equitable for all stakeholders, thereby ensuring that the outcome of the tender process cannot be challenged and the project unduly delayed.

# CONCLUSION

The challenge of improving social outcomes through infrastructure and service investments is faced by all levels of government across the globe. The private sector will continue to play a role in these projects, and it is essential that these partnerships be studied and improved.

The ASCF project provides another approach for government leaders to consider as they search for new ways to engage the private sector not only to capture capital, but also to form a consortium of partners to bring together best practices and innovative ideas. The project is one of the largest PPPs to link infrastructure and services to a detailed performance regimen based on social outcome goals. Although many details of the project are specific to New Zealand's political and social context, there are broader lessons that we hope will encourage public sector leaders to iterate, experiment, and ultimately improve outcomes financing to address global social and infrastructure needs.

## APPENDIX A: POLICY DOCUMENTS

To support training of agency staff and potential private sector partners, the National Infrastructure Unit (now the PPP Programme Office) developed the following policy documents:<sup>25</sup>

- *The National Infrastructure Plan*<sup>26</sup> outlines how the government intends to develop infrastructure during a 30-year period. This framework helps reduce uncertainty about the government's infrastructure strategy to encourage the private sector to partner on projects. The plan is updated every three years.
- *The Guidance for Public Private Partnerships in New Zealand*<sup>27</sup> outlines PPP principles and processes to be followed by agencies and private sector partners. The guide provides a framework for assessing whether a project is best suited for PPP or another form of procurement.
- *The Contractual Framework of the Standard Form Public Private Partnership (PPP) Project Agreement*<sup>28</sup> is designed to streamline and improve the consistency of the public sector's PPPs. With contracting complexity among the biggest barriers to PPP adoption, this template seeks to accelerate this phase of the process.

# APPENDIX B: INTERVIEW LIST

In developing this report, the Beeck Center interviewed over 30 individuals. Their input helped frame the overall structure of the report and provided key insights that made it possible to develop the lessons learned. Below is a list of those interviewed, with their names and affiliations at the time of the interview.

INTERVIEWEE	TITLE
Barbara Allen	Victoria University
Shane Avers	New Zealand Transport Agency
Sarah Bolton	Axford Fellowship, Fulbright New Zealand
Jonathan Boston	Victoria University
Olivier Brousse	John Laing Group
Matt Burgess	New Zealand Ministry of Treasury
John Buttarazzi	Georgetown University
John Cadman	SecureFuture Wiri Ltd.
Neil Campbell	New Zealand Department of Corrections
Dan Carol	Beeck Center for Social Impact + Innovation
Derek Gill	New Zealand Institute of Economic Research
Hamish Glenn	Infrastructure New Zealand
Will Gossin-Wilson	University of Chicago
Laura Harris	Bank of New Zealand
Dave Heatley	New Zealand Productivity Commission
Sally Hett	McGuinness Institute
Mike Inglis	Serco
Christine Kng	Johns Hopkins University PPP Initiative
Rob Lea	John Laing Group
Jeremy Lightfoot	New Zealand Department of Corrections
Dan Marshall	New Zealand Treasury PPP Programme
Verna McFelin	Pillars
Wendy McGuinness	McGuinness Institute
Alan Trager	Johns Hopkins University PPP Initiative
Ara Tai Rākena	Georgetown University
Maggy Tai Rākena	START
Colin Kennedy	Fulbright New Zealand
Steven Rathgeb Smith	Georgetown University
Christine Stevenson	New Zealand Department of Corrections
Suzanne Wilkinson	Centre for Disaster Resilience, Recovery and Reconstruction

# ENDNOTES

## INTRODUCTION

1. "In terms of financial or risk thresholds, significant generally means investments that require Cabinet or Ministerial approval as per Annex 1 [Cabinet Office Circular (15)5], that is, high risk proposals, or proposals with whole of life costs (WOLC) in excess of \$15 million, however funded...Agencies that are planning any significant investment (including any arrangements with Local Government Authorities seeking Crown funding or support) must evaluate all procurement options, including PPPs." For further information: <https://www.dPMC.govt.nz/publications/co-15-5-investment-management-and-asset-performance-state-services>

## BACKGROUND

2. Rodney Scott and Ross Boyd, "Interagency Performance Targets: A Case Study of New Zealand's Results Programme," IBM Center for the Business of Government, Collaborating across Boundaries series, 2017, <http://www.businessofgovernment.org/sites/default/files/Interagency%20Performance%20Targets.pdf>
3. See "Introducing Public Private Partnerships," <https://www.oag.govt.nz/2011/public-private-partnerships/part2.htm>
4. Rodney Scott and Ross Boyd, "Interagency Performance Targets: A Case Study of New Zealand's Results Programme," IBM Center for the Business of Government, Collaborating across Boundaries series, 2017, <http://www.businessofgovernment.org/sites/default/files/Interagency%20Performance%20Targets.pdf>
5. See the New Zealand Treasury's infrastructure plan, <http://www.infrastructure.govt.nz/>
6. New Zealand Public Private Partnership Programme, The New Zealand PPP Model and Policy: Setting the Scene – A Guide for Public Sector Entities, September 2015, <https://treasury.govt.nz/sites/default/files/2015-10/ppp-public-model-and-policy-sep15.pdf>
7. See the New Zealand Controller and Auditor-General's "Managing the Implications of Public Private Partnerships," November 2011, <https://www.oag.govt.nz/2011/public-private-partnerships/docs/public-private-partnerships.pdf>
8. Rikha Sharma Rani, "New Zealand Tries a Different Kind of Private Prison," CityLab, August 31, 2017, <https://www.citylab.com/equity/2017/08/new-zealand-tries-a-different-kind-of-private-prison/538506/>

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9. Carolina C. Lukkien and Peter W. Johnston, "An Evidence-Base for Reducing Re-offending," Practice: The New Zealand Corrections Journal 1, no. 1 (May 2013): 3-8, [http://www.corrections.govt.nz/\\_data/assets/pdf\\_file/0004/682006/COR-Practice-Journal-Vol1-Iss1-May13-WEB.pdf](http://www.corrections.govt.nz/_data/assets/pdf_file/0004/682006/COR-Practice-Journal-Vol1-Iss1-May13-WEB.pdf)
10. See New Zealand Department of Corrections' Prison Facts and Statistics- March 2018, [http://www.corrections.govt.nz/resources/research\\_and\\_statistics/quarterly\\_prison\\_statistics/prison\\_stats\\_march\\_2018.html](http://www.corrections.govt.nz/resources/research_and_statistics/quarterly_prison_statistics/prison_stats_march_2018.html)
11. See New Zealand Department of Corrections' Annual Report: 1 July 2016-30 June 2017, [http://www.corrections.govt.nz/\\_data/assets/pdf\\_file/0006/898629/Annual\\_Report\\_2016-17.pdf](http://www.corrections.govt.nz/_data/assets/pdf_file/0006/898629/Annual_Report_2016-17.pdf)
12. See Department of Corrections' Corrections News, May-June 2010, [http://www.corrections.govt.nz/resources/newsletters\\_and\\_brochures/corrections\\_works/2010/corrections\\_news18.html](http://www.corrections.govt.nz/resources/newsletters_and_brochures/corrections_works/2010/corrections_news18.html)

## LESSONS LEARNED : CONDITIONS FOR SUCCESS

13. See Treasury's, "Public Private Partnership (PPP) Guidance," <https://treasury.govt.nz/information-and-services/commercial-portfolio-and-advice/public-private-partnerships/public-private-partnership-ppp-guidance>
14. New Zealand Public Private Partnership Programme, The New Zealand PPP Model and Policy: Setting the Scene – A Guide for Public Sector Entities, September 2015, <https://treasury.govt.nz/sites/default/files/2015-10/ppp-public-model-and-policy-sep15.pdf>

15. See Department of the Prime Minister and Cabinet's circular, "CO (15)5: Investment Management and Asset Performance in the State Services," June 29, 2015, <https://www.dPMC.govt.nz/publications/co-15-5-investment-management-and-asset-performance-state-services>
  16. See Department of Corrections', "Auckland South Corrections Facility Performance Report: Quarter ending 31 December 2016," [http://www.corrections.govt.nz/resources/research\\_and\\_statistics/prison\\_performance\\_tables/auckland\\_south\\_corrections\\_facility\\_performance\\_report.html](http://www.corrections.govt.nz/resources/research_and_statistics/prison_performance_tables/auckland_south_corrections_facility_performance_report.html)
  17. See Department of Corrections', "Annual Report: 1 July 2016 – 30 June 2017," [http://www.corrections.govt.nz/\\_data/assets/pdf\\_file/0006/898629/Annual\\_Report\\_2016-17.pdf](http://www.corrections.govt.nz/_data/assets/pdf_file/0006/898629/Annual_Report_2016-17.pdf)
  18. See Department of Corrections', "Contract Management," [http://www.corrections.govt.nz/about\\_us/getting\\_in\\_touch/our\\_locations/auckland\\_south\\_corrections\\_facility/contract\\_management.html](http://www.corrections.govt.nz/about_us/getting_in_touch/our_locations/auckland_south_corrections_facility/contract_management.html)
  19. In a 2011, a discussion paper published by New Zealand's Controller and Auditor-General Office stated that it had surveyed several public sector agencies involved in PPPs and confirmed that the public sector had difficulty in understanding and appreciating the private sector's approach to uncertainty, innovation, change, and doing business. For further information: <https://www.oag.govt.nz/2011/public-private-partnerships/docs/public-private-partnerships.pdf>
  20. See "300 Million Auckland South Prison," Stuff, May 08, 2015, <https://www.stuff.co.nz/auckland/68390531/300-million-Auckland-South-prison>
  21. See the "Summary of Project," <http://www.laing.com/project-portfolio/87/223/auckland-south-corrections-facility.html>
  22. New Zealand's PPP Programme Office states "The larger a project is the greater ability it will likely have to absorb the transaction costs associated with PPP procurement and attract market interest. A small project or service contract may not be able to sustain those transaction costs associated with the required market development, procurement and monitoring inherent in PPP procurement, reducing the value for money proposition." For further information: <https://treasury.govt.nz/sites/default/files/2015-10/ppp-public-model-and-policy-sep15.pdf>
  23. New Zealand Public Private Partnership Programme, The New Zealand PPP Model and Policy: Setting the Scene – A Guide for Public Sector Entities, September 2015, <https://treasury.govt.nz/sites/default/files/2015-10/ppp-public-model-and-policy-sep15.pdf>
  24. See the Commonwealth Procurement Rules, <https://www.finance.gov.au/procurement/procurement-policy-and-guidance/commonwealth-procurement-rules/>
- ## APPENDIX A
25. See "Introducing Public Private Partnerships," <https://www.oag.govt.nz/2011/public-private-partnerships/part2.htm#para225>
  26. The Treasury, "Thirty year New Zealand Infrastructure Plan 2015," 2015, <https://treasury.govt.nz/publications/infrastructure-plan/thirty-year-new-zealand-infrastructure-plan-2015>
  27. National Infrastructure Unit of Treasury, "Guidance for Public Private Partnerships (PPP) in New Zealand," October 2009, <https://www.interest.co.nz/sites/default/files/NZ%20PPP%20guide.pdf>
  28. See "Standard Form Public Private Partnership (PPP) Project Agreement," <https://treasury.govt.nz/publications/guide/standard-form-public-private-partnership-ppp-project-agreement>



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