NT Secure Facilities - A Public Private Partnership Project

What is a PPP?
Public Private Partnership (PPP) is a specialised form of procurement based on a long term contractual agreement/partnership between the public and the private sector, whereby the private sector finances and constructs specialised infrastructure and related services on behalf of government and maintains the facility for an agreed period (usually 25 or 30 years) following which, ownership reverts to government.

The alternative, more traditional approach is where the government is responsible for the finance, design, and management of the construction and maintains the facility throughout its useful life. Under a PPP, rather than paying an up-front capital cost for the facility, the government pays a regular service fee, for use of the fully serviced and maintained facility during the contracted period.

Why use a PPP
PPP's have comparatively high set up costs and so are suited to large infrastructure projects, in excess of $100 million capital cost. For large projects, PPPs can achieve higher value for money than traditional procurement approaches through:

- optimal risk allocation between the private and public sector;
- more timely delivery of the project;
- innovation in design and delivery;
- whole of life approach to design, construction and maintenance;
- certainty of costs and service and maintenance standards over the life of the asset;
- greater capacity to deliver infrastructure investment

Value for Money, Innovation and Service Standards
A key element is determining whether to proceed with a PPP rather than a traditional procurement approach is a comprehensive value for money assessment. Value for money is assessed by using a public sector comparator for capital and whole of life costs if the government managed and financed the project using a traditional procurement approach combined with annual maintenance, service and equipment costs compared with the bid cost for the PPP project.

PPP projects achieve greater innovation by specifying output requirements rather than prescribing the design, enabling private sector bidders to draw on skills and experience to develop innovative design, construction, financing and other solutions to meet the outputs at lower costs. PPPs specify service and maintenance requirements which are included over the term of the contract ensuring that the facilities are maintained at appropriate standards.

Greater Capacity to Deliver Infrastructure Investment
The adoption of a PPP arrangement can lessen the need to delay or reduce the delivery of other essential services and infrastructure in order to finance a project of this size. The annual payments reduce as a proportion of government revenue over the life of the asset as only a fraction of the payment is indexed (8%).

Assessment of Value for Money
Assessment of value for money in PPP projects is done on the basis of a public sector comparator (PSC) which is the net present cost for capital costs and the over the life of the project (NPC).

The PSC is an estimate of the cost to government if it was to deliver the project under a traditional procurement method, for example design and construct and maintain the facility over the term of the contract.

The PSC construction cost is $534 million for the Darwin Correctional Precinct while the successful tenderer bid is $495 million.
**Tender Process**
A competitive tender process was undertaken for the NT Secure Facilities project as outlined below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Tender process</th>
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<tbody>
<tr>
<td>16 September 2010</td>
<td>Expressions of interest issued</td>
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<tr>
<td>8 December 2010</td>
<td>Request for proposals issued</td>
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<tr>
<td>11 May 2011</td>
<td>Proposals submitted</td>
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<tr>
<td>5 October 2011</td>
<td>Financial close</td>
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**Project Details**
Construction is scheduled to commence in late 2011.

The Sentinel consortium includes Territory businesses Sitzler, and Honeywell, with partners including the Commonwealth Bank of Australia, Bilfinger Berger Project Investments and Baulderstone.

Sentinel will use local contractors, consultants and sub-contractors for significant portions of the works to achieve local industry participation targets in excess of 75% of the contract value.

Sub-contractors include Project Plumbing, Nilsen Electrical, AE Smith, Endfire Engineering, Woodhead, Clouston, McKenzie Irwin, Douglas Partners, MasterPlan, Cundall, Arup, Michels Warren Munday, QS Services, Assetera and Deloitte.

The estimated increase to the workforce is 1000 including 70 full-time jobs and approximately 19 new apprenticeships or traineeships.

Sentinel will design, construct, finance and supply during the term of the contract:

- an 800 bed low, low-open, medium and maximum security male and female correctional facility, with additional 200 beds constructed to lock-up stage,
- a 30 bed male and female mental health facility
- a 48 bed supported accommodation and program centre
- building and equipment maintenance and equipment replacement;
- utility supply, full maintenance and management of ancillary services, help desk facilities, pest control and general services

Custodial services will be provided by the Department of Justice and mental health and clinical and specialist services in the mental health and behavioural management facility will be provided by the Department of Health.

The contract is for a period of thirty years and Sentinel will receive regular service payments once the facilities are constructed and operational, and upon meeting key performance standards. Failure to meet these standards will result in payments being abated.

**Other PPPs in the Northern Territory**

Other NT PPPs are the Alice Springs to Darwin railway and the Waterfront Precinct.