

Delivering Social Infrastructure: Customizing for Success

By Adrian Wimmers

Looking for a low-risk infrastructure sector with plenty of room for investment? Try social infrastructure.

From prisons and public buildings to water and waste treatment plants, social infrastructure projects generally have low risk profiles, making them some of the most attractive investments in the industry for private capital.

However, social infrastructure projects can also be the subject of intense political debate, and each government will need to decide what scope private enterprise can play in the design, construction and operation of these projects. For example, the inclusion of custodial services into prison project contracts remains very controversial in many jurisdictions, despite the success of a similar model in the UK.

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Taking a long-term view

And while the trend over the past few years has been on replicating (often UK-inspired) Public Private Partnerships (PPP) models to suit local situations and needs, there is an increasing movement towards customizing unique funding models that take a longer 'whole of life cost' view towards social infrastructure projects.

This change is being driven by two interconnected issues. The most obvious is the effect of the recent credit crisis which has forced governments to find creative funding solutions for the new build costs that are required to meet society's growing needs. Governments are also recognizing the ongoing maintenance and operational burden that many of these projects represent in the long-term, which is starting to be reflected in the way that contracts are structured.

New Zealand provides an excellent example of this in practice. As a smaller economy and with just over 4.2 million citizens, New Zealand has started exploring the use of full-scale PPP models to procure larger-scale projects such as the new Wiri Prison. But for smaller projects – which are likely to form the bulk of the future

project pipeline in New Zealand – the government is open to a more flexible approach around the tender process to keep transaction costs low and market interest high, and thereby optimize value for money.

Learning from each other

New Zealand's government has created a 'Better Business Case' approach, to help all government departments to leverage the best practices and lessons from other jurisdictions to create more effective and valuable business cases and – therefore – better social infrastructure. Consideration of a wide range of procurement options, and the most fit-for-purpose tender process, is now required for all major projects.

Similar situations are evolving in Australia and across Asia, where governments are using existing PPP models as a starting point, and then customizing their approach based on market conditions, risk profiles and policy objectives.

For social infrastructure projects, one thing is certain: governments will be expecting their next generation of social infrastructure to be designed, built and operated in a smarter way that creates better outcomes for society.