PPPs in Australia

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Adrian Torres
Senior PPP Specialist
Asian Development Bank

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BACKGROUND

- Represents less than 10% of total government infrastructure procurement in Australia; greatest in NSW and VIC at 10%
- PPP projects are generally more complex and at times highly structured
- Highly developed market with highly experienced players and enablers
- The average procurement time is 17 - 20 months

PPP Timeline

1992
UK government introduced the ***Private Finance Initiative***

2000
The Victorian Department of Treasury and Finance introduced ***Partnerships Victoria***

2002
The SA Department of Treasury and Finance introduced ***Partnerships SA: Private Sector Participation in the Provision of Public Services***

2002
The Commonwealth introduced ***Commonwealth Policy Principles for the use of the Private Financing***

2002
ACT's Treasury introduced ***Statement of the Objective and Principles for the Private Provision of Public Infrastructure***

2004
The ***National PPP Forum and the National PPP Working Group*** was established

April 2008
Infrastructure Australia Act came into effect

1992 — 2000 — 2001 — 2002 — 2003 — 2004 — 2008

2000
The TAS Department of Treasury and Finance introduced ***Private Sector Participation in Public Infrastructure Provision – Policy Statement and Guiding Principles***

2001
The QLD Government introduced ***Public Private Partnership Policy – Achieving Value for Money in Public Infrastructure and Service Delivery***

2001
The NSW Treasury introduced the ***Working with Government: Guidelines for Privately Financed Projects***

2002
The WA Department of Treasury and Finance introduced ***Partnerships for Growth: Policies and Guidelines for Public Private Partnerships***

2003
The NT Department of Chief Minister introduced ***Territory Partnerships: Policy Framework***

November 2008
The COAG endorsed the ***National Public Private Partnership Policy and Guidelines***

Sample PPP Projects

PPP Ranking

Table 1: **OVERALL SCORE**

Rank 2014		Score 2014	Score 2011	Rank 2011	Rank change
1	Australia	91.8	92.3	1	=
2	United Kingdom	88.1	89.7	2	=
3	Republic of Korea	78.8	71.3	3	=
4	Japan	75.8	63.7	6	+2
5	India	70.3	64.8	5	=
6	India—Gujarat state	68.0	67.6	4	+2
7	Philippines	64.6	47.1	8	+1
8	People's Republic of China	55.9	49.8	7	-1
9	Indonesia	53.5	46.1	9	=
10	Thailand	50.4	45.3	10	=

Mature (80-100)

Developed (60-79.9)

Emerging (30-59.9)

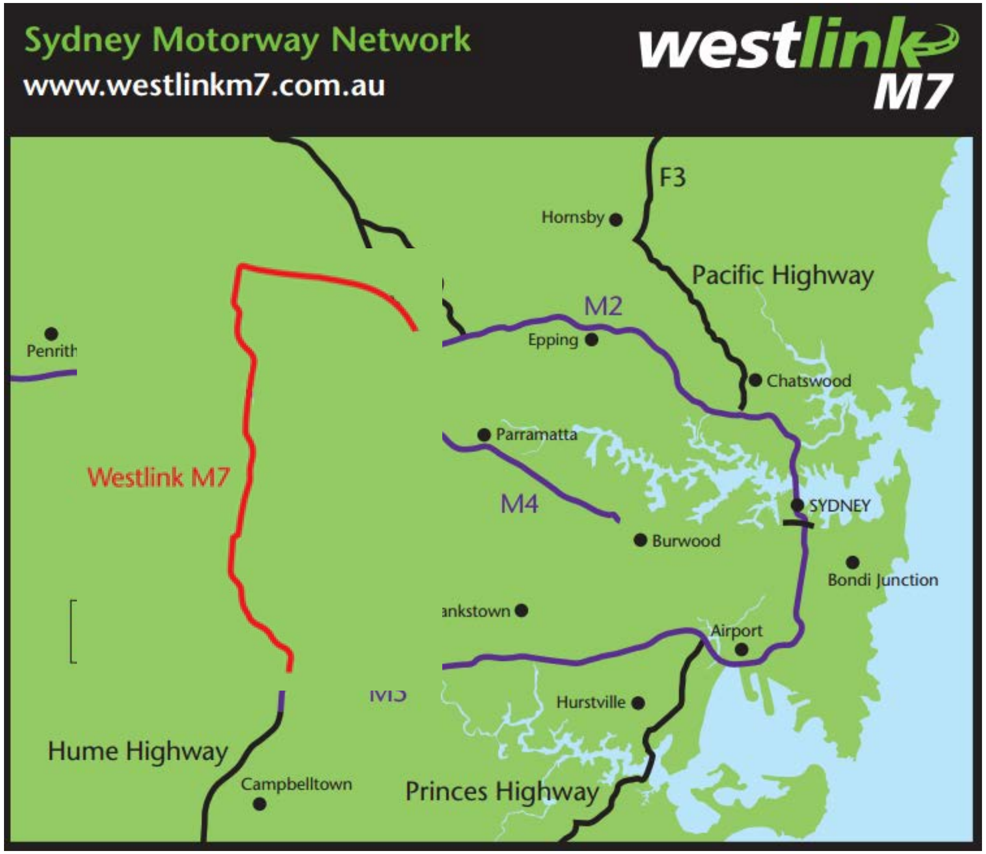
Source: Evaluating the environment for public private partnerships in Asia-Pacific The 2014 Infrascope - A report by The Economist Intelligence Unit

TYPES OF PPPS

- Social Infrastructure PPP
  - primary revenue stream or source of funding that repays the private sector finance used to build the facility takes the form of a service (or availability) payment from government
  - ‘Government Pays’
- Economic Infrastructure PPP
  - primary source of funding takes the form of charges paid by the users of the infrastructure
  - ‘User Pays’
  - Typically applied to toll road projects

CASE STUDY 1 – "THE GOOD"
WESTLINK M7

- 40 km toll road opened to traffic on 16 December 2005 that uses a distance-based electronic tolling system



Case Study 1 – "The Good" Westlink M7 (Continued)

- Westlink Motorway Limited is the consortium selected in 2003
- Consortium that owns Westlink – Transurban, Macquire Infrastructure Group and Leightons Holdings
- Constructed by Abigroup - Leighton Joint Venture
- Infrastructure Value – A$1.5 Billion
- Launched 8 months ahead of schedule

Case Study 1 – "The Good" Westlink M7 (Continued)

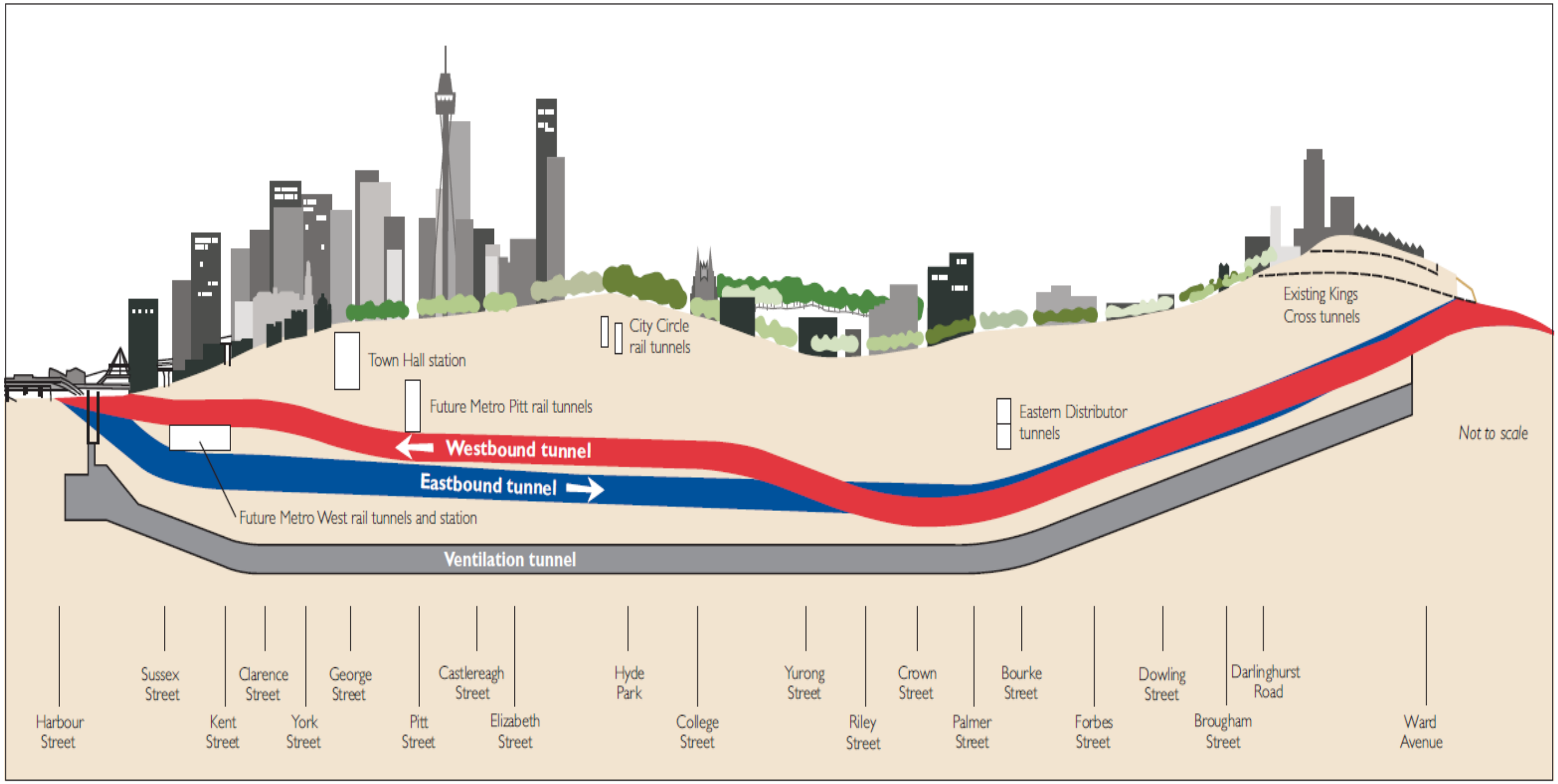
- Financial Success
  - In December 2005, Westlink successfully restructured the terms of its existing bank debt facility and negotiated payment of an early completion bonus in respect of the D&C contract
- Positive Economic and Social Impacts
  - Increased industrial development in West Sydney
  - Increased industrial land values (up to 40%) along the M7 corridor

Case Study 1 – "The Good" Westlink M7 (Continued)

- Overall
  - Delivered significant benefits to the community
  - Improved the transport across and through Sydney
  - Significant driver of investment and employment growth

Case Study 2 – "The Bad"
Cross City Tunnel

- 2.1 km-long twin-tunnel toll way located underneath the Sydney CBD



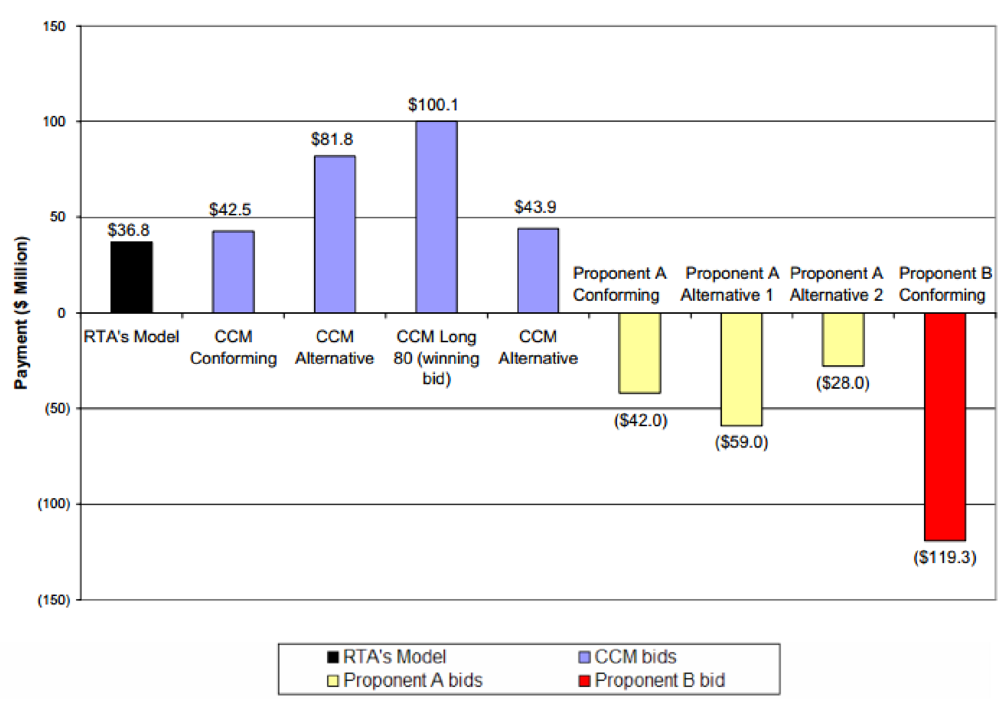
CASE STUDY 2 – "THE BAD"
CROSS CITY TUNNEL (CONTINUED)

- The CrossCity Motorway (CCM) is the consortium selected in 2002
- CCM is sponsored by Bilfinger Berger AG, Baulderstone Hornibrook Pty Limited and Deutsche Bank AG
- Construction started in January 2003; tunnel opened in August 2005
- Built at a cost of A$800 Million
- In less than 2 years after the tunnel opening the operating company has gone into receivership
- In June 2007, ABN Amro became the new project owner

Case Study 2 – "The Bad" Cross City Tunnel (Continued)

- What went wrong?
  - Difference in business consideration fees

Exhibit 2.2: Upfront payments for detailed proposals compared



Source: Cross City Tunnel Evaluation of Proposals 2002. Note: these upfront payments include any Business Consideration Fee offered.

CASE STUDY 2 – "THE BAD"
CROSS CITY TUNNEL (CONTINUED)

- What went wrong?
  - Overestimated Traffic Forecasts
    - The actual tunnel traffic did not even reach 50% of the forecast traffic levels

Exhibit 2.3a: Main tunnel. Comparison of patronage projections by the RTA and in the conforming bids

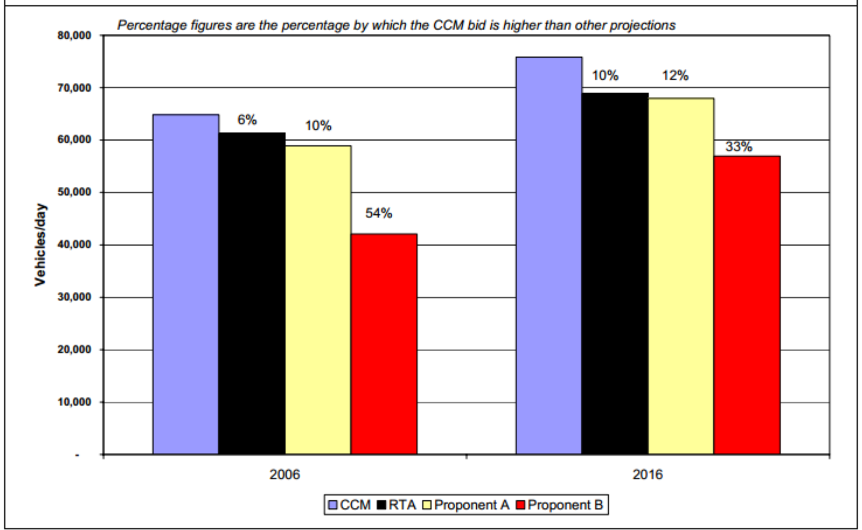
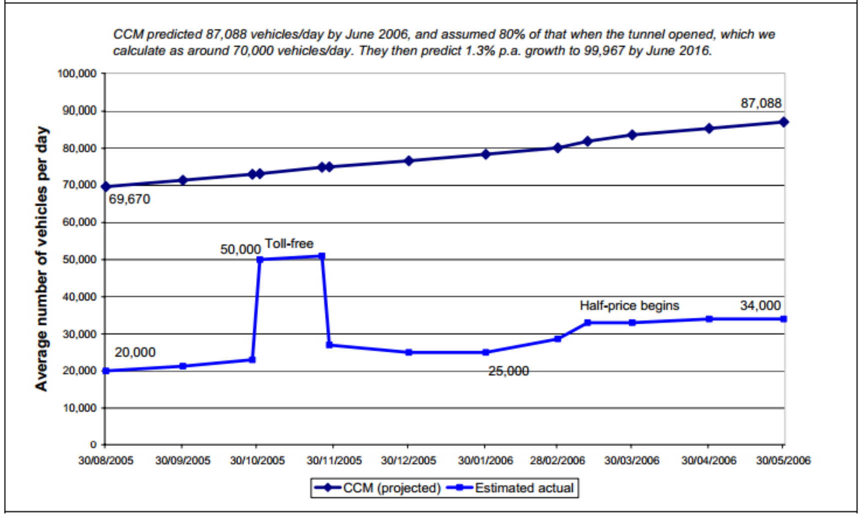


Exhibit 2.5: Estimated actual patronage compared to CCM's projections - nine months



Source: Audit Office research. Information on CCM projected patronage obtained from RTA documents. Estimated actual patronage based on research plus CCM statements where available.

Case Study 2 – "The Bad" Cross City Tunnel (Continued)

- What went wrong?
  - Size of Toll
    - At A$3.56 each way, the size of the toll was the highest per km of any toll in Sydney and considerably higher than the original A$2 toll proposed in 1998
  - Road Closures
    - A widely held view was the road closures and changes were not necessary but were introduced to force motorists into the tunnel to profit the operator; causing resentment from the public

Case Study 2 – "The Bad" Cross City Tunnel (Continued)

- Lessons
  - Proper and thorough traffic forecast assessment
  - Limit significant changes in project scope post award
  - Risk of bidding for upfront 'Business Consideration Fee'
  - Project failure exposes Governments to political risk

AND THEN THIS…

Impact of Crises

- Credit and Financial Crises
  - Affected bank debt and debt capital markets
  - Limited liquidity/ appetite for long dated debt
  - Higher pricing (debt and equity)
  - Retreat of international banks (back to their home base)
  - More focus on relationship lending

Changes in Approach (following the Crises)

- Shorter financing terms – mini-perm structures
- Higher pricing (equity and debt)
- Project selection/ prioritization – more social PPPs
- Revisit risk allocation/ sharing – with higher Government contributions/ grants

Some Further Improvements

- More robust financing structures
- More appropriate risk sharing
- Minimize financing costs
- Reduce transaction and bid costs
- Cease using PSC as a pass/fail test of value for money
- Encourage “owner-led” bids
- Unbundling