

PPPs as a form of Infrastructure Financing: the Australian Experience

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What is a Public Private Partnership (PPP)?

Scope of what 'PPP' means varies around the globe, and can include:

- Privatisations - sale of government businesses
- Joint ventures - joint government & private equity to provide new public infrastructure
- Contracting-out - private provision of services previously provided by government
- **Private provision of public infrastructure & related services**

Australian interpretation



Long term contract with government to build finance and maintain public infrastructure either for (1) provision of services to government or directly to public users or (2) operation by government to provide public services

Key Features of a PPP

- ▶ Bundled contract
 - ▶ One party responsible for all facets - design, build, finance, maintain, (operate)
- ▶ Service contract - no service: no pay
 - ▶ No payment (generally) upon completion of construction
 - ▶ Payment derived from revenues earned over time from services provided
 - ▶ Abatements/penalties if failure to provide contracted services fully
- ▶ Assets transfer to Government at end of contract (generally)
 - ▶ At nil/minimal consideration

Types of Australian PPPs

Increasing role of the private sector →				
	BTM		BOT	
Private party role	Infrastructure and ancillary services	Infrastructure and service delivery to government	Infrastructure and partial private-to-public service delivery	Infrastructure and service delivery to users
Government role	Delivery of core public services	Delivery of services to the public	Delivery of core public services	No operational role
Example	Non-core hospital services, non-judicial court services	Treated water services	Non-core school services + out-of-hours services to public	Roads, Rail, Ports

Australia's PPP History

- ▶ Evolution: objectives and outcomes
 - ▶ Off-budget financing (late 1980s/early 1990s)
 - ▶ Many deals needed to be unwound at high cost to Government
 - ▶ Harness Private Sector Efficiencies: (1990s)
 - ▶ Full transfer of risks, responsibilities and services to private party
 - ▶ Mixed success
 - ▶ Some unsustainable financially; some very successful (services and financially)
 - ▶ Community concerns over value for money and public interest
 - ▶ Value for money in the public interest (2000 - ..)
 - ▶ Optimal transfer of risks and responsibilities
 - ▶ Most projects have been financially sustainable - except for a number of toll roads contracted just prior to GFC
 - ▶ Wide community acceptance/ambivalence
 - ▶ Extension into previously 'core' public services in recent years

Australia's PPP Experience

- ▶ Led by States - ie not National Government
 - ▶ In Australia, the States have primary responsibilities for public infrastructure
 - ▶ Much more so than national or local government
 - ▶ > 120 PPPs contracted over past 25 years
 - ▶ Victoria and NSW > 40 each; National Government ~ 5 (Defence)
- ▶ Size (capex)
 - ▶ Individual Projects: AUD 50 Million to AUD 5,000 Million
 - ▶ Total: ~ AUD 50 Billion
- ▶ Wide range of sectors
 - ▶ Transport, water, education, health, corrections, housing, 'convex', courts,.....
- ▶ Service recipient (customer)
 - ▶ Overwhelmingly, direct user (and paying party) is government
 - ▶ Availability payments for serviced infrastructure + facility management payments (+ operations where relevant)
 - ▶ Toll roads the major exception: private users who pay PPP party directly
 - ▶ Full service rail & hospital PPPs emerging

PPPs: Financing vs Funding Source (Australia)

- ▶ In Australia, accordingly, PPPs have served as a financing source much more than a source of funding
 - ▶ I.e. not provided an alternative ultimate funding source but has enabled government to defer upfront capital expenditure
 - ▶ Toll roads are main exception: allow funding by users to replace funding by government
- ▶ However, use as a financing source not primary reason for use of PPP mechanism. Drivers have been
 - ▶ To harness whole-of-life synergies
 - ▶ To harness private sector efficiencies, incentives and risk management
 - ▶ To arrest poor government record in major infrastructure - over budget; over time; over & over again

Until recently, Victoria fully-funded capex in budgets for non-toll road PPPs (until contract execution)

Australia's Toll Road PPP Experience

- ▶ Australian use of PPPs widely seen as successful but toll road record is mixed
 - ▶ Roads have been of high quality and well maintained
 - ▶ Some early roads (eg MCL) seen as too financially successful
 - ▶ Later roads contracted until mid 2000s performed solidly
 - ▶ Most toll roads contracted after mid 2000s had financial troubles
 - ▶ Over-estimation of traffic/revenue forecasts
- ▶ Outcome is that Australia
 - ▶ Has had many roads heavily subsidised by private financiers (equity & debt)
 - ▶ No longer can transfer traffic/revenue risk to private sector until after ramp-up

Traffic Forecasts vs. Actual for Australian toll roads

	EIS AADT		Post ramp-up AADT		AADT Steady State		Financial Health
	Forecasts	Year	Forecasts	Year	Actual	Year	
Completed projects							
Sydney Harbour Tunnel (NSW)	Not available	N/A	Not available	N/A	98,000	2007	<ul style="list-style-type: none"> Strong. No issues
M4 (NSW)	Not available	N/A	Not available	N/A	113,846	2010	<ul style="list-style-type: none"> Strong. Now un-tolled road
M2 (NSW)	Not available	N/A	77,000	1997	40,000	1997	<ul style="list-style-type: none"> Below forecast at opening, but now very strong traffic
CityLink (VIC)	Not available	N/A	460,000	2001	813,000	2014	<ul style="list-style-type: none"> Very strong. No issues
M5 (NSW)	71,383	2002	Not available	N/A	90,904	2004	<ul style="list-style-type: none"> Strong. No issues
Eastern Distributor (NSW)	Not available	N/A	60,000	2006	53,000	2014	<ul style="list-style-type: none"> Traffic below forecast at opening, but improved steadily. Current performance solid
Cross City Tunnel (NSW)	52,700	2006	98,000	2006	36,000	2014	<ul style="list-style-type: none"> Financial collapse & multiple sell offs. Road operational
Lane Cove Tunnel (NSW)	104,880	2006	135,960	2012	80,000	2014	<ul style="list-style-type: none"> Financial collapse & multiple sell offs. Road operational
Westlink M7 (NSW)	Not available	N/A	200,000	2010	160,000	2014	<ul style="list-style-type: none"> Traffic below forecast, but improved steadily
EastLink (VIC)	Not available	N/A	299,000	2011	192,141	2011	<ul style="list-style-type: none"> Traffic below forecast, forcing a refinancing, but improving
Clem7 (QLD)	73,800	2016	100,284	2011	26,000	2014	<ul style="list-style-type: none"> Financial collapse & sold to new owners. Road operational
AirportLink (QLD)	199,400	2012	195,378	2012	48,000	2014	<ul style="list-style-type: none"> Financial collapse & change in ownership. Road operational

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