Public-Private Partnerships: Public Value in Uncertain Times!

Colin Duffield

Scope

- What are PPPs, why do we have them and what legacies have been delivered for transport?
- Where may value come from?
- What transport projects are emerging and is there still a need for private involvement?
- How are PPPs adapting?

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So what are Public Private Partnerships?

3

A PPP is a long-term contract between the public and private sectors where government pays the private sector to deliver infrastructure and related services on behalf, or in support, of government's broader service responsibilities.

PPPs typically make the private sector parties who build infrastructure responsible for its condition and performance on a whole-of-life basis.

(source National PPP Guidelines 2008)

They generally involve: finance, major capital procurement and long term operational responsibility by the private sector

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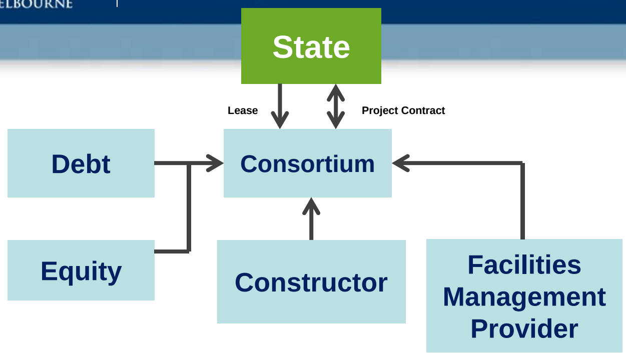
Current Private Sector Participants



Debt
- ANZ, CBA, Westpac, NAB
- Macquarie
- RBS
- Deutsche
- Mitsui Corporate Bank
- Bank of Tokyo-Mitsubishi
- Mizuho Corporate Bank

Equity
- Plenary
- RBS
- Macquarie
- John Laing
- Bilfinger Berger
- Amber International
- Some of the builders

Constructor
- Leightons-Thiess John Holland
- Lend Lease – Abigroup, Baulderstone
- Brookfiled
- Multiplex
- Grocon
- Degremont, Motorola

FM Providers
- Honeywell
- Conneq
- Multiplex
- Thiess
- United Group
- Spotless

Plus specialist consultants and/or new international participants

PPPs drive VfM via.........

- Whole of life planning and costing
- Output specification and scope for innovation
- Efficient risk allocation
- Asset utilisation and third party revenues
- Rigorous process

They look like ....

6

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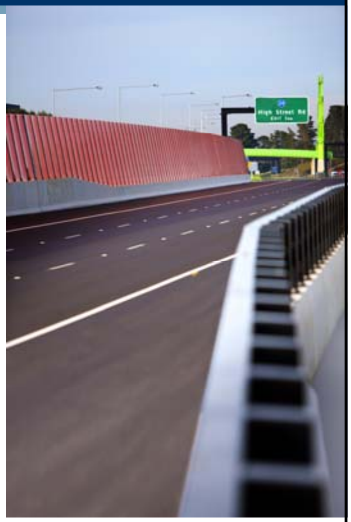
PPP examples: Eastlink toll road



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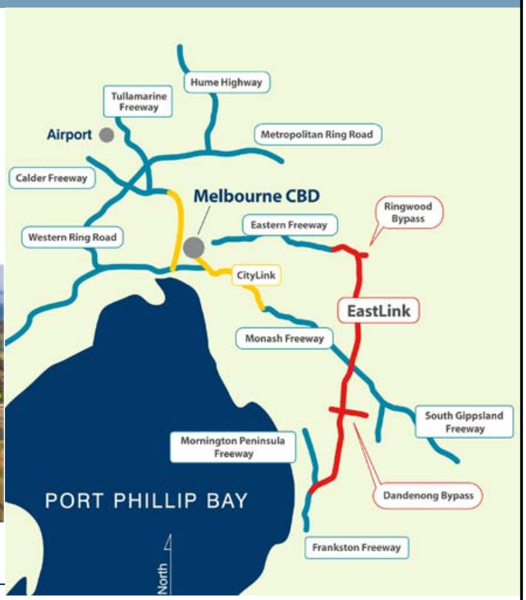
Peninsula Link

- Built and financed as an Availability PPP
- 25 year operating deal
- Government makes quarterly payments



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Peninsula Link

WestConnex

WestConnex links Sydney's west and southwest with the city, airport and port precincts in a 33km continuous motorway, expected to cost up to $14.9bn.

Procurement Strategy: To be delivered in three stages over 10 years.

Financing Structure: NSW will take the traffic volume risk for the initial section and tolls will be introduced. Private sector capital will then be raised more readily and cost-effectively since traffic volumes will be known. Capital will then be recycled to fund future stages of WestConnex.

Status: Stages 1 and 2 under construction.

Stage 1: M4 widening 2015-17; M4 East 2016-2019, Stage 2: King George interchange 2015-16, New M5 2016-2019

Stage 3 M4-M5 2019-2023

10 |

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What we know about PPPs in Australia [1]

1. NSW and Victoria have been amongst the most active international jurisdictions in delivering quality infrastructure via PPPs
2. NSW and Vic Policy and procurement processes have led the world in terms of business confidence and general community acceptance and form a solid component of the Australian Guidelines
3. Projects include both economic and social infrastructure…

Roads | Hospitals | Community facilities

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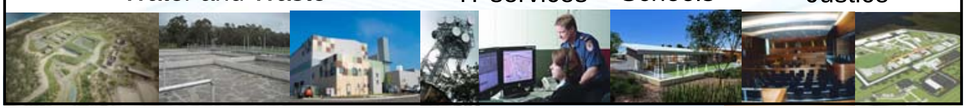
What we know about PPPs in Australia[2]

5. The project structuring and delivery approach is dynamic and it adapts to market conditions
6. Transparency in transactions, public interest testing, value for money and service delivery are key requirements
7. Government, private providers, bankers, independent researchers and wider stakeholders are all involved in both specific projects and policy development
8. In depth specialist PPP skills have been developed

Water and Waste | IT services | Schools | Justice



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What style of PPPs are used in Australia?

- For economic infrastructure:
  - User pay
  - Availability payments linked to performance
  - Hybrids involving base payment and incentives
  - Mechanisms for financial offset via capital payment or potentially a government guarantee

- For social infrastructure:
  - Availability payments linked to performance
  - Sometimes full service provided by the private sector
  - Sometimes private provider delivers so called ‘non-core’ services
  - Mechanisms for financial offset via capital payment or potentially a government guarantee

Chosen style is sophisticated and determined on a project by project basis

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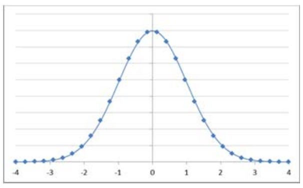
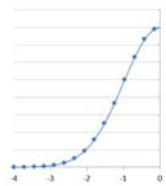
Drivers for commercial behaviour: Payment

Full toll model	**Performance Based Annuity Schemes**
 Revenue based on Price x Volume	 Best outcome
1. Potential gain if higher volumes can be attracted, i.e. potential for +/- 2. Bids driven by traffic forecasts 3. Deemed too risky due to earlier losses 4. Mechanism to toll controlled, i.e. not too many entry and exit locations 5. Incentive for early completion 6. Demand risk with Private sector 7. Mechanism for user charge	1. Best position can never be bettered. Can only be abated, i.e. potential for –ve 2. Bids driven by price & innovation 3. Incentives lower to private sector 4. Flexibility for road users sought 5. Incentive for early completion 6. Demand risk with Government (unlike shadow toll gov not exposed to budget fluctuations)

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Changes over time

Style of deal	BOT/BOOT Near full risk transfer Full service	DBFO Shared core and non-core services Economic & social projects	DBFO Shared core and non-core services Demand risk back to Gov	DCFMO Capital engineering Value ladder Risks shared and incentives	Capital contributions Unsolicited bids Capital recycling
Market	Aggressive Finance readily available	Sustainable market Fully financed deals	Risk averse Dominated by availability payment deals	Conservative but interested	Conservative but seeking opportunities
Government	Constrained budgets	Value for money focus AAA credit rating	Value for money focus AAA credit rating	Tight fiscal policy AAA credit rating	Value for money Leverage
	1980s + 90s	2000-09	2009-12	2012-2014	2014-

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Where may there be value in procuring via a Public Private Partnerships?

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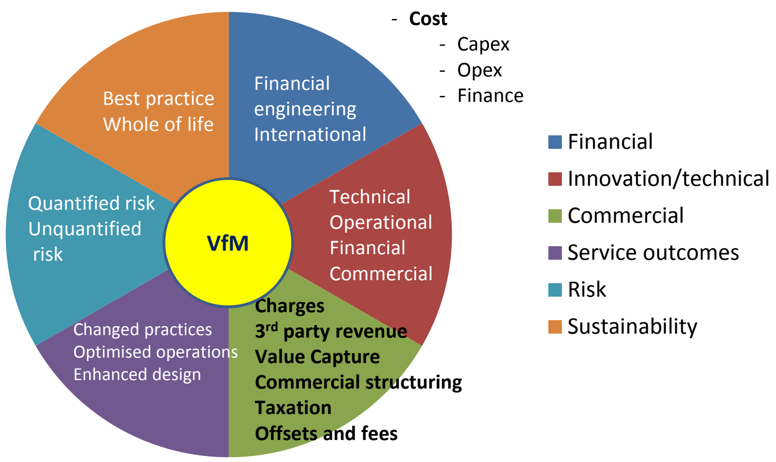
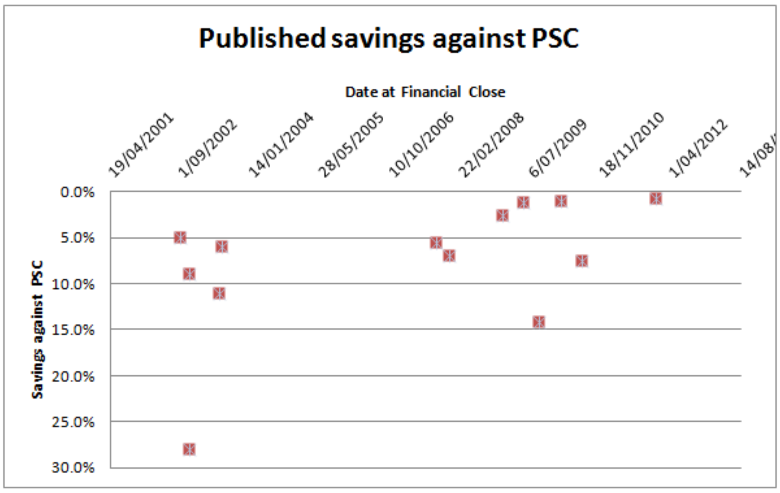
Timing of investment: World Bank: GDP growth = f(transport, energy, ommunications)

World Bank research indicates that output externality from infrastructure investment is between 0.07 and 0.1 regardless of whether a country is rich or poor

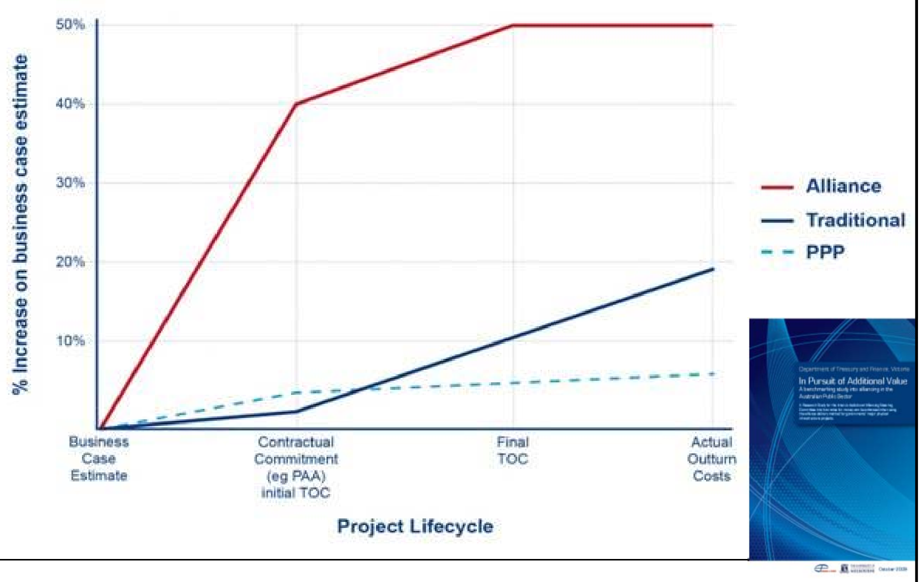
E.g. Provision of a road costing $1 billion, based on Australian, GDP $US 1454 billion, where approx. 5% of GDP invested in Infrastructure in 2015 (3.5% fed). The additional $1 billion investment is a 1.37% increase in infrastructure expenditure which would result in a 1.37 x 0.1 = 0.137% increase in the nations GDP, i.e. $1.91 billion per annum

Zones of value





Value for Money is being refined to capture scope and changes



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Where is there value and where are the funds?

Value:

- Facilitate jobs and liveability for future generations
- Need to be globally competitive
- Equitable – in a large continent

Funds:

- Direct taxation
- Direct user pays
- Gaining value as a part of development
- Recycle capital – 5x economy
- Borrowing/efficiency trade off
- Global competition for finance – link to cost

Major problems ….

The demand for expenditure far exceeds available funds for both:

1. Capital projects (necessary to create to quantum change)
2. Ongoing maintenance (generally this has suffered from under investment for decades that create inefficiencies and result in lack of productivity)

Compounding factors:

1. We compete internationally for finance
2. Resources are thin
3. Adoption of new technologies is slow due to perceived risks, cumbersome processes and lack of research

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The forward look for projects?

23

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New Infrastructure Australia Act

Amended Infrastructure Australia Act, September 2014

New powers, independent IA Board with right to appoint its own CEO

Establishes IA as an independent statutory body with a mandate to prioritise and progress **nationally significant infrastructure**


AUSTRALIA

Infrastructure Australia Act 2008

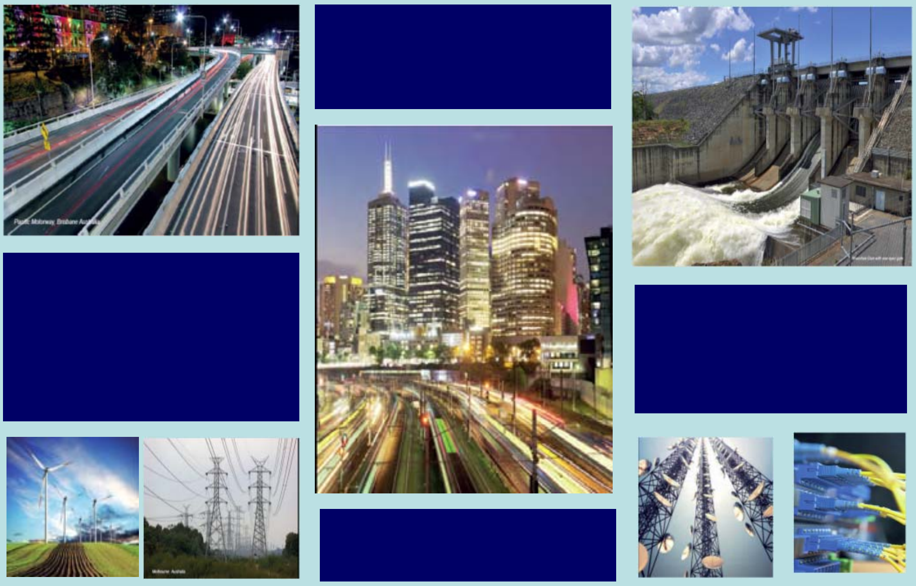
No. 17, 2008

Compilation No. 5

Compilation date:	14 April 2015
Includes amendments up to:	Act No. 36, 2015
Registered:	16 April 2015

Prepared by the Office of Parliamentary Counsel, Canberra

Nationally significant infrastructure



Work priorities

- Northern Australia Infrastructure Audit
- Australian Infrastructure Audit
- 15 year Australian Infrastructure Plan
- Infrastructure Priority List
- Project evaluations
- National PPP guidelines

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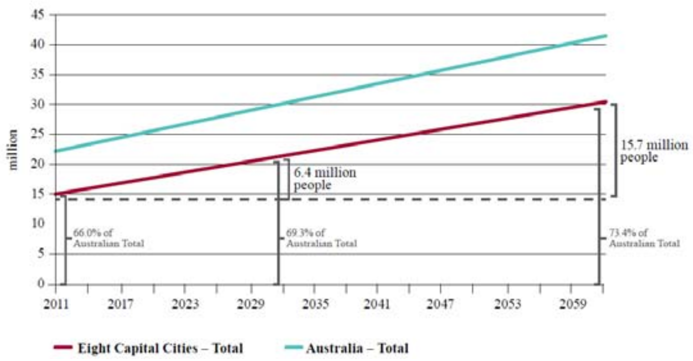
Australia's projected population growth

National population projections, 2031 to 2061 (million)



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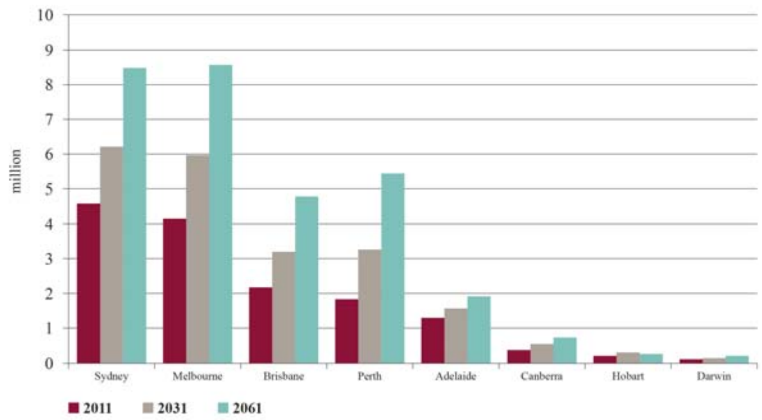
Growth in Australian capital cities

Projected population of Australian capital cities, 2011–2061



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Growth in congestion

Road travel times are expected to increase by at least 20 per cent

Demand for public transport to almost double over next 20 years

Congestion cost is expected to increase to around $53.3 billion in 2031

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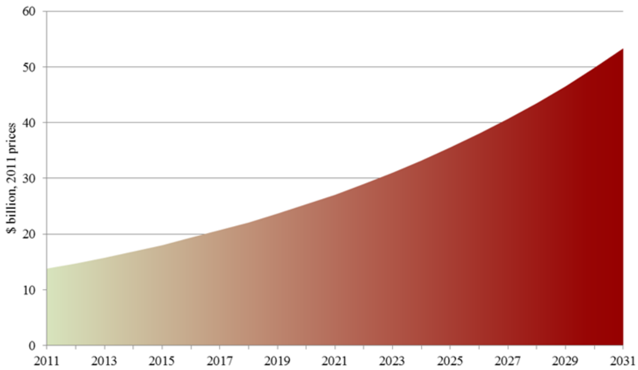
Growth in congestion - Transport

Annual congestion cost across Australia's 6 largest cities



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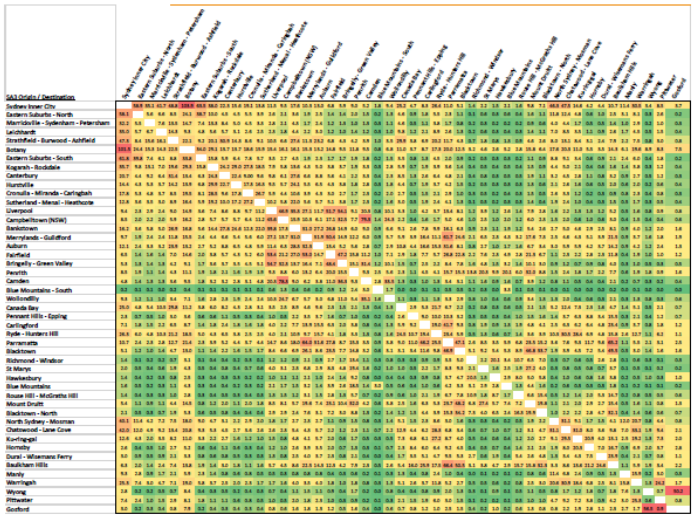
Origin destination 'heat' map Sydney Urban transport



Source: ACIL Allen Consulting, 2014

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Other active road PPP projects

- **Western Distributor Project**

  $5.5 billion Western Distributor Project, which includes the Monash Freeway Upgrade and access improvements for Webb Dock. Monash 2016-18; West Gate 2018-2022
- **CityLink Tulla Widening**
- **NorthConnex**
- **Gateway Upgrade North**
- Expanding our **outer suburban arterial road network**, potentially bundled long-term maintenance under an availability style PPP

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PPPs – the next steps

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Our recent history for road projects

- **Poor traffic modelling skewing commercial evaluation. E.g. Cross City, Clem 7, Lane Cove…. Eastlink**
- **Unstable finance markets post GFC**
- **Conservative bidders**
- **Political decisions**

So how do we take the next step

- ?

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Current PPP initiatives

Value area	Initiatives
Finance	Capital injection International levers Value ladders
Innovation/technical	New technology
Commercial	Market led proposals New market players Reduction in bid costs Fit for purpose structures
Service outcomes	Focus on design Expanded services & bundling
Risk	Optimal risk allocation
Sustainability	Social Equity – fair pricing Flexibility Resilience
Funding	Capital recycling Road pricing Value capture

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Port of Melbourne 20.9.16 The Age

Asset sale

Federal Gov enticement

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Technology – Managed motorways

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