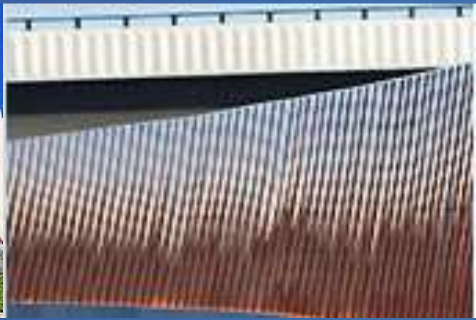
Disclaimer:
The views expressed in this document are those of the author, and do not necessarily reflect the views and policies of the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this document, and accept no responsibility for any consequence of their use. By making any designation or reference to a particular territory or geographical area, or by using the term "country" in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

CASTALIA
Strategic advisors

What's New in Public-Private Partnerships
Australia's Experience



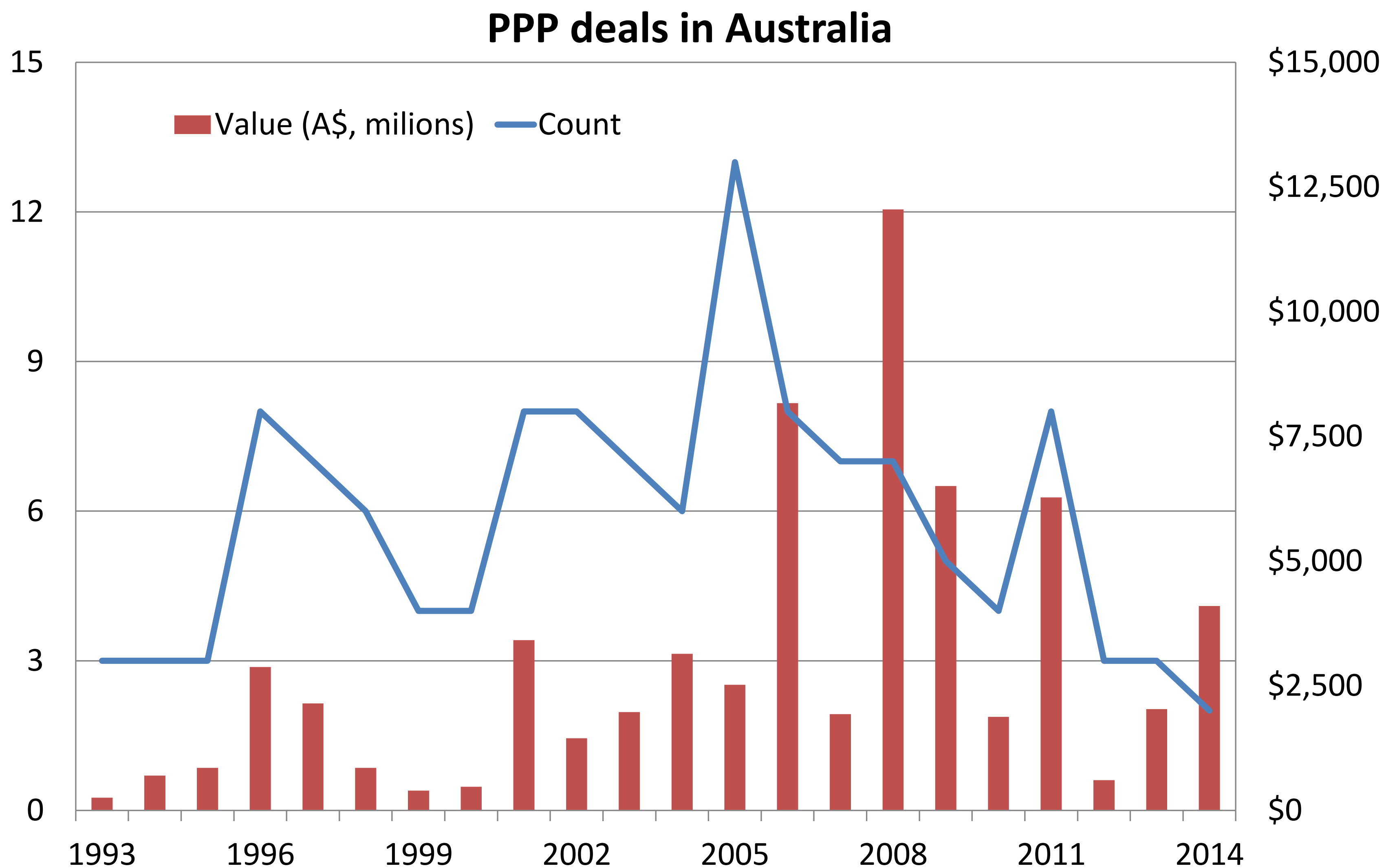



Michael Schur, November 2014

AGENDA

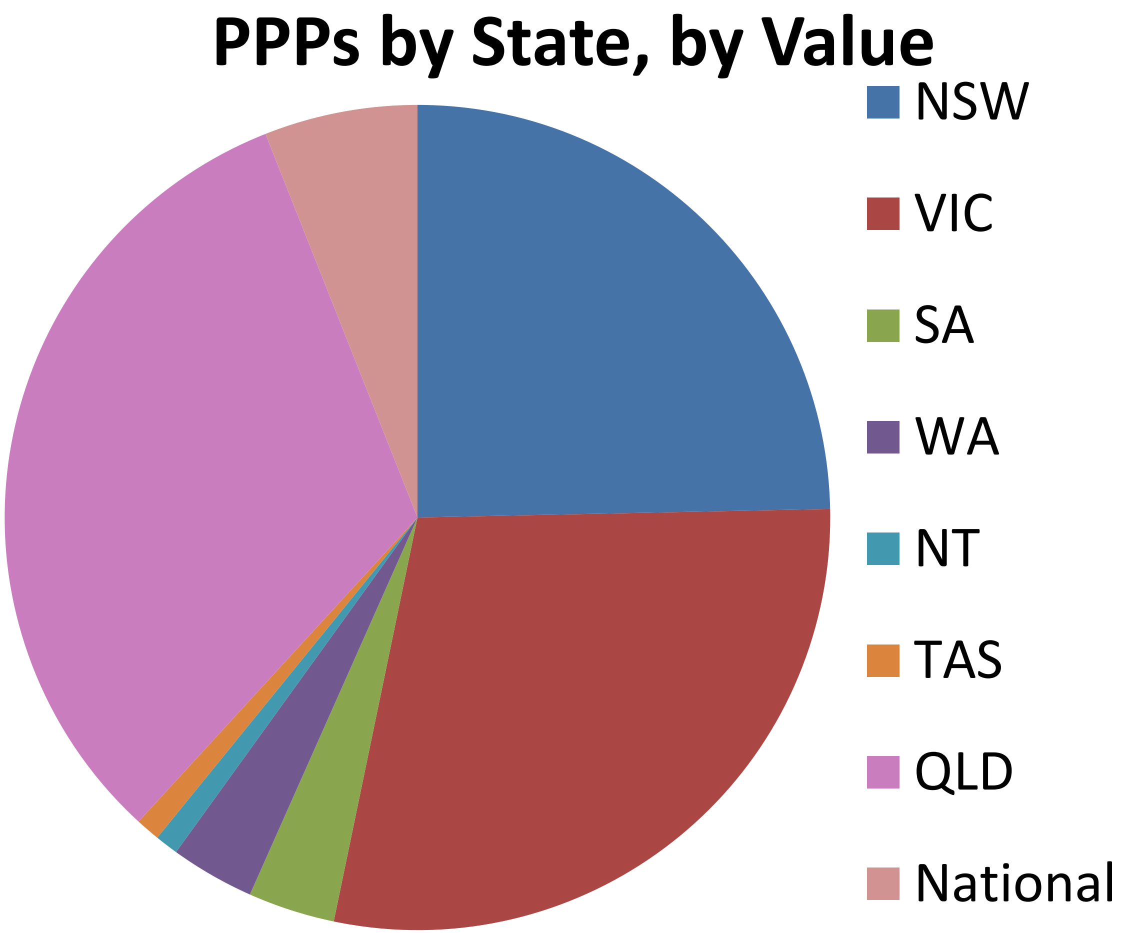
- PPPs in Australia - strong track record
- Remaining challenges
- Recent failures
- Adjustments to the model post-GFC
- Is further tweaking required despite strong rebound?
- Public followed by private financing – a new model?
- Westconnex – application of the new model

PPPs in Australia : a strong track record



Source: Infrastructure Australia

PPPs now being used in all states



Some challenges remain

- Success largely due to standardised approach (contract documentation, risk allocation, financing arrangements)
- There is nonetheless further scope for standardisation
  - Inconsistencies between states:
    - planning regulations
    - environmental and industrial relations laws
    - approval processes
    - approaches to unsolicited proposals
  - Complex or multibillion dollar projects have come to tender close together
    - financial sponsors, contractors and advisers get tied up

Some recent high profile failures

Project	Result
NSW Cross City Tunnel toll road	• $0.79bn project • Forecasted 90,000 vehicles/day; achieved 34,000 • Twice been in administration
NSW Lane cove Tunnel toll road	• $1.67bn project • Forecasted 115,000 vehicle/day; achieved 58,000 • Entered receivership in 3 years
Queensland Clem 7 Tunnel toll road	• $2.8bn project • Forecasted 100,000 vehicles/day ; achieved 21,178 • Unable to refinance debt after 1 year and entered administration
Brisbane Airport Link toll road	• Traffic forecasts inflated by 100% • Listed at $1.2bn, prices soon dropped to 1 cent
Victoria Desalination Plant	• Capital costs continuously revised up from $2.9bn to $4bn • Completed plant immediately put into standby mode due to lack of demand

Adjustments to the PPP model post-GFC

Effort to attract foreign builders

- Bid cost reimbursement
- New firms: Acciona; Bouygues; Samsung C&T; Bombardier; MacDow; Laing O'Rourke; SNC Lavalin

Better risk sharing

- Availability payments / shadow tolls

Good communication with market

- Deal flow strong and well telegraphed to participants

More contractors

- Stronger participation in bids:
  - 9 bidders on WA schools
  - >4 bidders on VIC schools

More investors

- Demand for long-term infrastructure investments
- Growing global infrastructure investment pools
- More players entering the market: John Lang; InfraRed Capital Partners; Morrisons

Should the PPP model be tweaked further?

Problems remain with the post-GFC PPP model

… for construction companies:

- Contractors best placed to bear construction risk but limited access to capital
- Construction tendering constrained by availability of underwritten finance

… for investors:

- Long-term investors prefer stable, inflation hedged returns
- Result is a lower supply of available capital

… for government:

- Government bears the demand risk and keeps the asset on its balance sheet, or
- Private sector finances construction phase at higher cost

Public followed by Private Financing – a new model?

	Construction period	Operation period
Government	Issues converting infrastructure bonds	Project debt automatically removed from state balance sheet
Investor	Receive fixed coupon payment	Bond converts to asset ownership at pre-determined price Earn returns from SPV vehicle
Contractor	Assumes construction risk via incentive and penalty arrangements	Continues to operate asset

CASTALIA

Advantages of the model

- Access to larger pool of investment capital
- Government finances construction phase with lowest cost debt
  - AAA credit rating
- Risks better matched
  - Construction companies manage construction risk
  - Long-term investors accept long-term ownership risks
  - Complete risk transfer from Government once construction complete
- Projects proceed more rapidly
- More competitive tendering environment
- No assets on government balance sheet long-term

CASTALIA

Westconnex – application of the new model

- Australia’s biggest urban road project:
  - $11 billion
  - 33 km, including 19km of tunnels
  - links Sydney’s west and south-west with the city and airport
- Unique procurement approach: Government Buys, Tolls and Sells (GBTS)
  - Government pays for first phase and imposes a toll
  - Gather traffic data
  - Raise debt against future toll revenues
  - Spend debt on next phase
  - Gather traffic data
  - Sell equity
  - Recycle equity capital into future phases

Michael Schur
Managing Director
Castalia Strategic Advisors

+61 2 9231 6862
michael.schur@castalia-advisors.com
http://castalia-advisors.com

Level 1, 27-31 Macquarie Place
Sydney NSW