

Infrastructure Australia and the Australian PPP market

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Deal flow in the Australian PPP market continues with a growing pipeline of social infrastructure and transport deals, while the introduction of Infrastructure Australia (IA) has established a nationwide body that will co-ordinate infrastructure development.

The alignment of strategy and ideology throughout the states, territories and federal government, means that a significant portion of the country's infrastructure needs will now be delivered through the PPP model.

There is a strong pipeline of PPP projects in Australia, which has improved significantly over the last year with continued potential for further investment across all states.

As further infrastructure project needs are identified and more PPP projects come on stream, the private sector is expecting to see a surge in 'safer' project finance activity in times of financial uncertainty.

The first PPP deals in Australia are now complete and have so far included transport, courts, prisons and soldier accommodation schemes. Now a further tier of projects are coming to market with continued investment in transport and an increased move into the education and health sectors.

Infrastructure Australia

The creation of IA is a valuable development towards an integrated approach to infrastructure development in Australia, and generally has been well received by the private sector and state governments.

The establishment of IA has wide support as an acknowledgement by the Australian government of the need for a central co-ordinating authority to assess and prioritise Australia's infrastructure needs.

IA's first task will be to undertake a 12-month national infrastructure audit and compile a priority list of future projects to guide future investment decisions.

The organisation will also develop nationally consistent guidelines for PPPs and will propose regulatory reforms to help improve the use of existing infrastructure, streamline approval processes and facilitate increased investment in infrastructure.

The chairman, [Sir Rod Eddington](#), has advised both the British and the Victorian governments on transport infrastructure needs.

Sir Rod has experience in the aviation industry as chief executive of British Airways for more than five years, as well as recent appointments such as non-exec chairman for Australia and New Zealand at JPMorgan.

With the creation of IA, an overall strategy can now come into play to address Australia's infrastructure needs.

States will continue to be responsible for the delivery of social infrastructure PPP projects, but IA will facilitate a co-ordinated approach for future development.

PPP in Australia

There has been much debate in recent years over the perceived lack of investment by successive Australian governments in critical infrastructure across all states. At the moment PPP in Australia is being procured on a state-by-state basis.

Some states have been slower to embrace PPP as a delivery model - such as Western Australia and the Northern Territory - but attitudes towards PPPs are changing as more infrastructure needs are identified and state governments warm to private sector investment as an alternative to traditional procurement.

The PPP debate has centred on the perceived financial benefits of PPP projects that flow to the private sector at the expense of the taxpayer.

Although now widely accepted as an effective means to bring private sector expertise and efficiency into developing long-term public infrastructure facilities, there is still some opposition to the concept of PPP, as there is in most countries with a PPP agenda.

There are still some philosophically opposed to the involvement of the private sector in public infrastructure, but the general public and most of the mainstream media are broadly positive on the continued use of PPP. Trade union opposition to the model is not seen to be stalling the delivery of PPPs.

Clayton Utz partner Graeme Gurney comments: "An argument against PPPs is their cost of delivery - based on a comparative analysis of the raw cost of private versus public sector borrowing - however, what this argument fails to take into account is the actual cost to governments if they deliver infrastructure projects themselves."

An example of this is the [public sector comparator](#) (PSC) for the new Royal Children's Hospital (RCH) PPP scheme [\[Projects Database\]](#) that revealed the Victorian state will save Aus\$70 million (US\$65m) compared to what it would have been, had it been traditionally procured.

Gurney continues: "There is also often a lack of appreciation of the real and tangible benefits of PPPs, such as innovation in project delivery, a whole-life costing approach, the allocation of usage, financing and revenue risk to the private sector, and the much shorter timeframes within which the private sector is able to deliver projects."

The political will for PPP is strong in Australia and the federal government remains committed to developing new projects.

An indication of further PPP development in Australia is Bank of Ireland Corporate Banking's recent [office opening](#) in Sydney - expanding its businesses internationally in line with the firm's strategy to reposition its geographic earnings profile outside of Ireland.

Adrian Olsen, head of global project finance at Bank of Ireland, said: "We believe that the Australian market as a whole has a considerable requirement for significant infrastructure expenditure over the medium and longer term. Aside from the obvious natural resource investment requirements, in particular, many of the state governments' have a pipeline of capital works projects identified that extend into the 'hundreds of billions of dollars' over the next few years. Not all will be PPPs, but in Australia PPP deals have an excellent track record and we expect a good number to use this method of financing. We hope BOI can play its part in supporting the financing requirements of these ambitious programmes."

The new office will be called BOI Capital Australia and the Sydney-based team will initially be focused on project finance in the PPP, environmental, energy and oil & gas sectors.

There is room for European investors to get involved in Australian PPP, with firms like Bilfinger Berger, Bouygues and Transdev already established with a presence in Australia.

There is also the possibility of some Spanish contractors getting involved in the roads market; however, with the smaller PPP schemes it is more difficult for foreign investors to get involved.

PPP Financing

The implosion of the debt finance markets is a major challenge currently facing PPP projects in Australia and as a result, projects face difficulty in raising the amount of debt they need or in seeking the level of committed funding that is typically required.

Simon Irvine, partner in Clayton Utz's project finance practice, says: "PPP projects rely on a plentiful, stable and cost-effective sources of debt and in the current environment none of these terms can be applied to the availability of debt. To make matters worse, the diversity of financial products that was previously available to project developers has evaporated."

Volatile pricing fluctuations and uncertainty facing the debt markets are making it difficult for developers to commit and impossible to model refinancing in the normal way.

Despite the uncertain financial environment, transactions are being analysed and deals structured so that all risks have either been mitigated or else can be accepted openly by credit committees.

Creditworthy government counterparties combined with detailed risk assessment may now make PPP financing attractive to debt investors, particularly if market conditions mean that banks can realise more attractive margins.

The private sector is expecting to see a surge in project finance activity as more PPP projects come on stream and further infrastructure project needs are identified.

Irvine continues: "Our sense from some of the Australian banks is that the current credit crisis is prompting them to focus their attention away from certain areas of financing towards perceived 'safer' investment activities such as infrastructure projects and we have noted significant reallocation of resources within the banks here towards this area."

Law firms in Australia have therefore taken steps to boost project finance capability and will be in a position to meet the changing needs of the market in this area.

Queensland



The north-eastern state of Queensland has in the past been active in the transport PPP market, but is now venturing into the social infrastructure PPP arena with the development of a schools PPP scheme and hospital project.

The state government is currently preparing the business case for the Aus\$940 million (US\$776m) Sunshine Coast Hospital scheme [\[Projects Database\]](#) in Kawana, south east Queensland.

The Queensland government is at the discussion stage and considering going down the PPP route. A decision on this will be made mid-year in 2008.

The Queensland Schools PPP scheme [\[Projects Database\]](#) is making progress with the recent submission of expressions

of interest (EOI) that are currently being evaluated.

The project includes the development of seven new schools in the Redlands area and the Western Corridor of Brisbane.

The state government is planning to develop a further 42 schools in Queensland over the next 20 years - costing Aus\$2.8 billion.

Ernst & Young is acting as financial adviser to the state government on this project.

The Aus\$3 billion Brisbane Airport Link [\[Projects Database\]](#) in Queensland is being procured with a busway and is currently at the evaluation stage.

The following three teams are currently bidding for the BOOT project:

- BrisConnections - Macquarie Bank, Thiess and John Holland
- Northern Motorway - ABN Amro Australia, Leighton Contractors, Maunsell, GHD, Kumagai Gumi, EDAW, Woods Bagot and Golder Associates
- NorthConnect Motorway - Baulderstone Hornibrook, Abigroup, Bilfinger Berger Civil, Babcock & Brown, Hyder-
- SMEC JV, Bilfinger Berger Services Australia, Coffey Geotechnics and Hassell

Ernst & Young is acting as financial adviser to the state government and Clayton Utz is providing legal advice.

The Brisbane Northern Link tollway PPP [\[Projects Database\]](#) will be coming to market at the end of this year and will be procured by Brisbane City Council with potential federal government funding.

Ernst & Young is acting as financial adviser to the state government.

The Queensland government is also working on the next phase of the NSBT (North-South Bypass Tunnel) - the underground toll road connecting Brisbane's northern suburbs to the inner city bypass and the NSBT at Bowen Hills. The first phase of the NSBT [\[Projects Database\]](#) closed in May 2006.

The project will be delivered as a PPP project in a joint venture between the Queensland state government and Brisbane City Council.

Futher PPP projects in Queensland include:

- Toowoomba Bypass [\[Projects Database\]](#)
- Gold Coast Rapid Transit [\[Projects Database\]](#)

New South Wales



Australia's most populous state, New South Wales (NSW), continues to provide a steady pipeline of PPPs. In particular, education PPP schemes in the past have enhanced the delivery of teaching in schools. The PPP market in NSW is now moving towards the development of large healthcare PPPs.

The Aus\$702 million (US\$636m) Royal North Shore Hospital PPP scheme [\[Projects Database\]](#) in St Leonards, Sydney, is currently at the bid evaluation stage awaiting a preferred bidder announcement, with financial close slated for the first half of this year.

The three remaining consortia are:

- Infrashore Partnership - ABN Amro, Thiess, Thiess Services, ISS Health Services and Wilson Parking
- Pinnacle Healthcare - Babcock & Brown, Bovis Lend Lease, Spotless and Interpark
- Plenary Health - Plenary Group, Deutsche Bank, Laing O'Rourke, Honeywell, Medirest and Premier Parking

The Royal North Shore Stage Two redevelopment scheme will also include a commercial property aspect.

Clayton Utz is providing legal advice to the NSW Department of Health.

New South Wales' largest inland city, Wagga Wagga, is preparing a Aus\$275 million (US\$251m) hospital redevelopment scheme [\[Projects Database\]](#) which looks likely to go ahead as a PPP.

A major new project, the Sydney Metro PPP, is currently at the preliminary assessment stage and is expected to cost more than Aus\$10 billion in total.

Another project in the pipeline is the Aus\$7 billion N4 Extension Toll Road PPP scheme.

Other potential PPP projects in NSW include:

- Northern Beaches Hospital [\[Projects Database\]](#)
- health sector
- waste/recycling sector
- road sector

Victoria



The south-eastern state of Victoria has been more willing to embrace PPP and has a number of social infrastructure projects going through procurement and coming to market.

The state government is [fine tuning](#) its commercial principles in infrastructure delivery to reflect the evolving PPP market.

The revised Partnerships Victoria *Standard Commercial Principles* are expected to ensure Victoria continues to deliver best policy practices and best possible outcomes.

The updated principles will help potential bidders understand what the government expects from future projects and will provide greater efficiencies in PPP projects. The state government has committed periodically to review and revise the principles.

Melbourne's 11-school PPP scheme [\[Projects Database\]](#) has progressed through to the recent shortlisting of three consortia.

The groups are:

- Axiom Education Victoria consortium - ABN Amro, Abigroup, UGL Services and YMCA
- Pinnacle Education VIC consortium - Babcock & Brown Australia, Hansen Yuncken, St Hilliers and Spotless
- Learning Places Partnership consortium - Bilfinger Berger, RBS, Kane Constructions, Hooker Cockram Projects and Tungsten Group

All three will advance to the next stage of the selection process where they will be asked to respond to a project brief which details the design, technical and service requirements for the package of primary and secondary schools.

The Victorian government has made a commitment to renovating, re-building or extending every government school by 2016 and has already committed Aus\$1.9 billion over the last term of government.

Ernst & Young is acting for the state government.

The [Melbourne Desalination](#) Plant PPP scheme is a major PPP deal in the pipeline and is expected to cost Aus\$3 billion. Expressions of interest (EOIs) for the water contract will be requested in the first half of this year, followed later by a request for proposals (RFP).

Clayton Utz is acting as legal adviser to the TDM Consortium (Thiess Pty, Degremont and Macquarie Bank) on their bid for the Victorian desalination project.

The state government and La Trobe University also recently issued a registration of interest (ROI) tender notice for a [bio-science research facility](#) PPP project.

A further two major social infrastructure PPP projects are expected to be announced in the near future.

In Victoria a number of major transport projects are expected to come to market over the next few years that are likely to be delivered as PPPs.

In 2006 the Victorian state government commissioned Sir Rod Eddington (now chair of IA) to undertake a comprehensive study into improving east-west transport connections across Melbourne - the East West Link Needs Assessment (EWLNA) report.

In April this year the report was delivered to the federal government and Eddington made 20 recommendations for Aus\$9.5 billion in road projects plus Aus\$8.5 billion in public transport projects to improve transport in Melbourne.

The EWLNA report observes that "given the scale of the projects, it is likely that funding would be required from both the public and private sectors for the projects to be delivered", and there is a "clear precedent for private sector participation in the delivery of new road infrastructure".

Potential PPP projects in Victoria include:

- Melbourne Wholesale Market redevelopment [\[Projects Database\]](#)
- housing sector
- water sector
- East West Link [\[Projects Database\]](#)
- rail rollingstock
- justice sector - police headquarters

South Australia

The state of South Australia currently has PPP projects moving forward in procurement in the prisons, education and health sectors.

The South Australia state Department for Correctional Services' (DCS) is expected to issue an RFP to interested firms this month for a private sector partner to develop its Aus\$500 million (US\$440m) prison PPP scheme [\[Projects Database\]](#).

Expressions of interest (EOI) are now in for the scheme and contractual close has been slated for June 2009, with construction work due for completion in 2011.

The interested consortia includes:

- Torrens Correctional Partnership - ABN Amro, Bilfinger Berger Concessions, Boulderstone Hornibrook and United Group Services
- Macquarie Bank and GEO Group
- Westpac-led consortium
- Babcock & Brown, Multiplex, Hansen Yunken and Spotless

The project involves the development of five new secured facilities, consisting of three new prisons, a forensic mental health hospital and a youth training centre.

Turner & Townsend is acting as lead consultant and transaction adviser to the DCS, while Clayton Utz is legal adviser.

The Aus\$1.7 billion (US\$1.46m) 800-bed [Marjorie Jackson Nelson](#) Hospital in Adelaide is expected to be the centrepiece of the South Australian health system.

A call for expressions of interest (EOI) from private sector corporations is expected to be launched in November 2008 for the 30-year project.

Clayton Utz is acting as legal adviser to the South Australia government on this project.

The Adelaide city government has launched a [schools PPP](#) project into the market that will develop six new 'super schools' across the metropolitan area of the city that will cost Aus\$216 million.

The southern state is also expected to release a tender for a desalination plant PPP project called the Olympic Dam PPP - that will be worth up to Aus\$2 billion. Olympic Dam is a mining centre in SA located 550km to the north west of Adelaide.

A PPP hospital to replace the Royal Adelaide Hospital [\[Projects Database\]](#) is also a potential project for the state.

Commonwealth Government

The Commonwealth Government is developing the Single LEAP Two (Living & Environment Accommodation Precinct) defence housing PPP scheme [\[Projects Database\]](#) that is currently in the market.

The scheme will bring living-in accommodation for single members of the Australian Defence Force.

The government will make a decision on Phase Two of the project in the second half of 2008 and occupation of the accommodation will commence progressively between 2010 and 2011.

The following four shortlisted consortia put in their detailed bids at the end of last year:

- Living In Partnership - Thiess Pty, United Group Services, Westpac and Commonwealth Bank of Australia (CBA)
- Pinnacle Housing (LEAP 2) - Babcock & Brown, Hansen Yuncken, John Holland, Spotless, P & F and St Hilliers Contracting
- Plenary Living (LEAP 2) - Plenary Group, Deutsche Bank and Compass Group (Australia)
- Ubique Infrastructure Services - ABN Amro Australia, Leighton Contractors and Transfield Services (Australia)

KPMG is acting as financial adviser to the government and Clayton Utz is legal adviser.

Western Australia

Despite being Australia's largest state in area, Western Australia, is currently not procuring any PPP projects, but Perth Hospital has been identified as a potential project that would benefit from going down the PPP route in the future.

Australian Capital Territory

Potential projects being considered for PPP delivery in Australian Capital Territory include a courts PPP project, a government office block scheme and water projects.

New Zealand

Although there is currently no activity in the New Zealand PPP market, there is an election at the end of this year and the current opposition party, the New Zealand National Party, is looking at the possibility of using PPP to fund infrastructure.

The Waterview Toll Road PPP in Auckland has been mooted as a potential PPP development and the government is currently considering the PPP route.

Conclusion

PPP deals in Australia have for the most part included relatively short-term schemes, procured on a state-by-state basis across the transport, accommodation and justice sectors.

In a maturing market, there is now a move towards a nationwide approach to developing medium to long-term PPP projects, such as major toll roads and batched social infrastructure schemes.

International banks and developers are establishing new offices across Australia and despite the current financial climate, project finance transactions are being viewed as relatively stable investments.

As the need for new infrastructure is identified, Infrastructure Australia will play a significant role in creating a nationwide approach to developing a continuing pipeline of long-term infrastructure.

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