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Committee Manager
Public Accounts Committee
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Members

Parliamentary Inquiry into Public Private Partnerships ("PPPs")

Thank you for the opportunity to contribute to the Parliamentary Inquiry into Public Private Partnerships.

Our submission is made from a strong track record in the delivery of a wide range from PPP projects from Toll roads through to Train Stations and hospitals.

It would appear to us that the term PPPs has become a convenient label into which any procurement of public infrastructure, irrespective of its use or specific peculiarities, is labelled by.

For example Social Infrastructure is highly geared (around 90%-95% debt, 10-5equity (usually made up of Mezzanine debt and 1% normal equity) and can only achieve this gearing by eliminating the risk of cash flow interruption through reasonable allocation of risk to both design & construction and other service providers. The primary operations risk or use of the facilities remains with the State, because the state wishes to have public sector employees provide public sector services.

However, the gearing for Toll Roads is usually around 50%-60% debt and the remainder equity. In such projects debt will not lend against the full value of the traffic numbers leaving equity to do so and take the upside or downside opportunity for being the operator.

Accordingly toll road projects require the bidding consortiums to translate the potential opportunity into an economic NPV dollar value for the likely traffic over the concession term. In reality the equity returns are exposed to volume that is not guaranteed and therefore any bid is judged on; subsidy to or from Government, level of toll, community strategy and affect on other transport corridors.

This inquiry seems to also assume that all stakeholders, including the State and the Community, understand key risk differences equally.

The reality is that Governments are encouraged to continue to pursue the procurement of infrastructure through the use of PPP techniques due to the fact that as a process it provides a saleable political solution by combining the ingredients of:

- Due competitive process;
- Disciplined delivery control;
- Protection on final outcomes through both the use of key performance indicators and commercial confidentiality;
- An efficient mechanism to manage their own departments; and
- An orderly method to tap into the funds available in the banking and institutional markets thus relieving the stress on Governments' capital allocations.

What is not working, in our view, is an understanding of the both the costs to deliver under a PPP bidding process as well as the risks that can be efficiently absorbed by the private sector.

When one looks at the portfolio of toll roads delivered through PPP techniques then in general the outcomes have been positive for all stakeholders. Portfolio evaluation is the key and it would appear to us that the RTA has efficiently learnt from the incremental experience and continually developed and adjusted its techniques in the management of the process.

The delivery of social infrastructure through PPPs does not exhibit this attribute yet. In our view the delivery of social infrastructure through PPP techniques is affected by:

- Being driven by financial procurement techniques rather than service outcomes;
- Departments being very prescriptive on the type of infrastructure to be delivered thereby devaluating innovation. (If innovative outcomes were sought then perhaps the private sector could risk returns on the delivery of outcomes whereas at the moment most process are delivering what the departments would have sought under a traditional design and construction);
- The prescriptive process does not encourage innovation either in the bid or in discussions as any introduction runs the risk of being made available to competing parties;
- This financial outcome focus is evident in the establishment of a project Public Sector Comparator (PSC) which establish parameters which, in our experience, are below actual market place costs;
- The process of procuring external advisers which seem, again, to be process driven and therefore based on lowest cost rather than value driven;
- Lack of deal flow, all PPPs requires specialist expertise and without a commitment to deal flow it is most difficult to retain the investment in resources.

From a builder's perspective the costs to bid, lack of deal flow and commitment and a "one size fits all" to risks affect our attitude to social PPPs.

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PPP techniques can deliver more than is currently being procured and can efficiently replace direct procurement through direct borrowings foe social PPPs. At present the social PPP practices appear to be driven by classic financing techniques rather than by procurement of outcomes or a willingness to embrace new platforms on which to deliver public services.

This does appear to be driven by the reluctance of most Governments to increase their own borrowings notwithstanding their capacity to do because;

- Politically the S&P AAA Status is seen as a measure of their fiscal responsibility; and
- They appear to not have the personnel to effectively manage procurement outcomes;
- They have become process driven as a result of institutions such as ICAC in NSW; and
- The use of external advisers in the PPP bidding process provides a degree of political insurance in the case of error (both for the public servants as much as the politicians)

These attributes will remain unless there is a willingness by Governments to invest internally. In effect Governments are outsourcing procurement and unless direct procurement can match these outsourced the interest in the use of PPP techniques will remain strong.

In summary we are of the view that the use of PPP techniques, when judged on a portfolio basis, for toll roads is very efficient and producing competitive outcomes because innovation is encouraged and this allows the private sector to deliver to its full capacity. In social PPPs the process is still dominated by budgetary and prescriptive delivery issues.

We would be pleased to make a presentation to the committee to assist your deliberations.

Yours sincerely

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