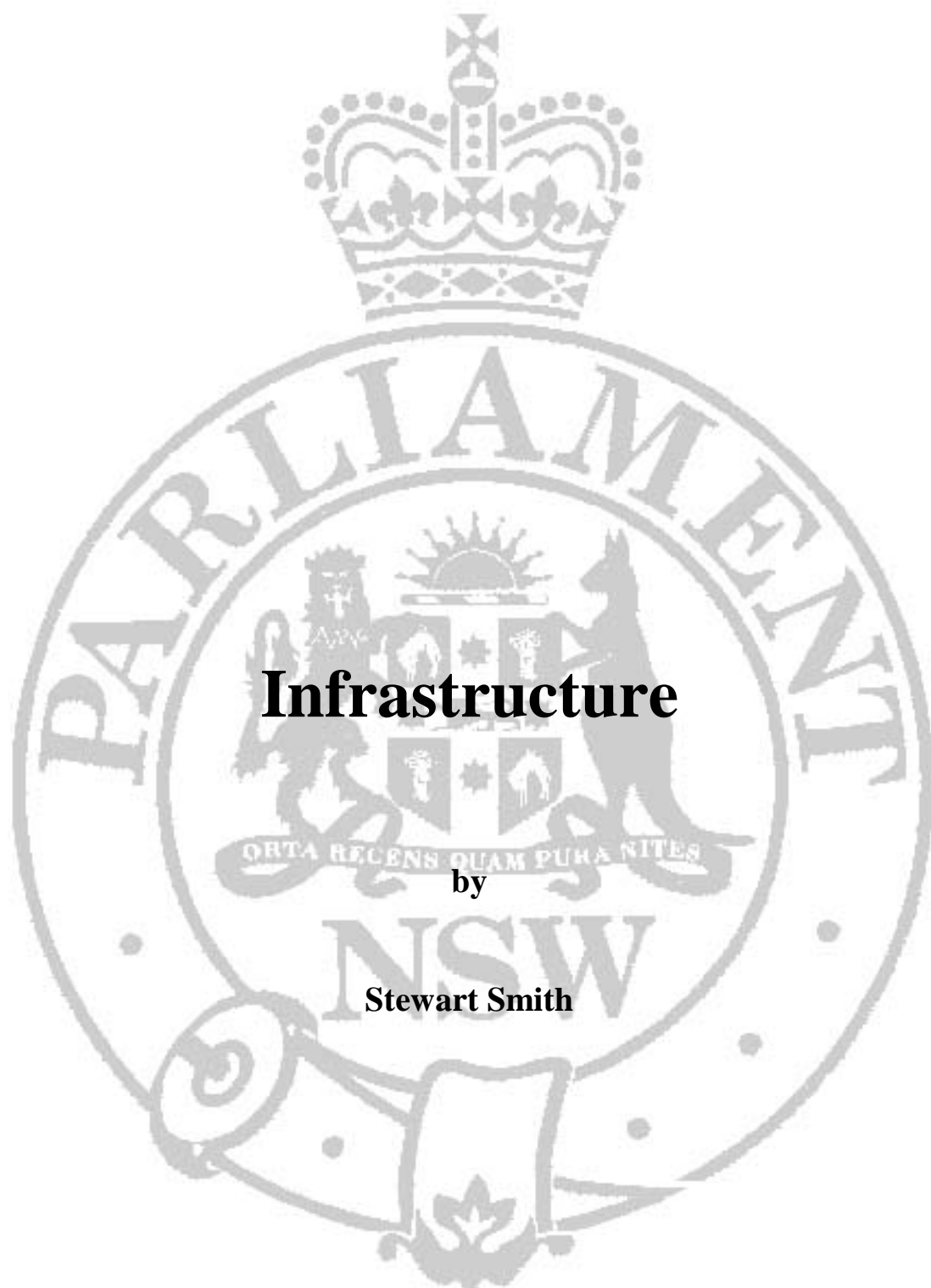


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Infrastructure

by

Stewart Smith

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EXECUTIVE SUMMARY

Historically, the public sector has been the main provider of infrastructure in Australia. With Australia's federal system of government, the Commonwealth Government has responsibility for certain infrastructure services, including: postal and telecommunications; and air transport services. The State Governments are responsible for the bulk of remaining infrastructure services, including: ports; rail; roads; gas; electricity; and water. Local government has varying degrees of responsibility for infrastructure across the states, but plays a significant role in the provision of urban and rural infrastructure in the form of water supply, sanitation and local road networks. Infrastructure can be divided into two forms. Economic infrastructure comprises: roads; railways; airports; water and waste water services; telecommunications; and power generation facilities. Social infrastructure comprises: schools; health facilities; recreation facilities; housing; and law and order facilities.

The link between infrastructure provision and economic growth / productivity is keenly debated. However, there is considerable agreement that certain parts of the State's economic infrastructure are in need of urgent repair and upgrade. A review of the State's infrastructure by Engineers Australia gave a 'poor' rating to both rail and stormwater, meaning that critical changes are required for them to be fit for their current and anticipated purposes. The highest rating given was 'good' for electricity infrastructure.

The major methods of funding infrastructure include: government debt; taxes; user charges; producer levies; and special purpose vehicles such as privately funded projects. The Allen Consulting Group reviewed the best method of funding infrastructure, as measured against criteria of: effectiveness; efficiency; equity; stability/reliability; administration costs; compliance costs; transparency and certainty; and stakeholder support. It found that there is no 'silver bullet' solution, and that every approach has disadvantages as well as advantages.

The State Infrastructure Strategic Plan contains the Government's priorities for major infrastructure projects over the next ten years and aims to bring a systematic approach to infrastructure planning. In 2001 the State Government released its policy on the private financing of infrastructure projects. The policy provides for the financing of both economic and social infrastructure. The essential rationale for the use of privately financed infrastructure projects is improved value for money for the Government. Some reject this view, and the union movement has called for infrastructure to be financed through the issue of government infrastructure bonds.

1.0 INTRODUCTION

This paper looks at the linkages of the provision of infrastructure and economic growth, and reviews some arguments that Australia and NSW have not invested enough in infrastructure over the last decade. Current NSW infrastructure provision initiatives are discussed, as is methods of funding infrastructure. Finally, public private partnerships and their contribution to infrastructure provision are explained.

In 1993 the NSW Public Accounts Committee canvassed a range of definitions of infrastructure, and concluded that a distinction between economic and social infrastructure was appropriate. The Committee proposed the following working definition:

Infrastructure comprises the physical assets required to satisfy the public's need for access to major economic and social facilities and services. It may be divided into two broad types:

- Economic infrastructure, comprising: roads; railways; ports; airports; dams and reservoirs; water headworks, water treatment and reticulation facilities; telecommunications and post facilities; power generation facilities.
- Social infrastructure, comprising: schools and other education facilities; hospitals, clinics and other health facilities; housing; recreational facilities; law and order facilities.

The principal characteristics of infrastructure facilities are:

- They have high initial capital costs;
- They are time consuming to build;
- They have long lives;
- They exist to support other economic and social activities, not merely as an end in themselves.¹

This distinction between economic and social infrastructure is now widely accepted and is used in this Paper.

Historically, the public sector has been the main provider of infrastructure in Australia. With Australia's federal system of government, the Commonwealth Government has responsibility for certain infrastructure services, including: postal and telecommunications; and air transport services. The State Governments are responsible for the bulk of remaining infrastructure services, including: ports; rail; roads; gas; electricity; and water. Local government has varying degrees of responsibility for infrastructure across the states, but play a significant role in the provision of urban and rural infrastructure in the form of water supply, sanitation and local road networks.²

¹ NSW Parliament Public Accounts Committee, *Infrastructure Management and Financing in New South Wales. Volume 1: From Concept to Contract – Management of Infrastructure Projects*, Report No 73, July 1993, at 4.

² Makin, T. "The changing public-private infrastructure mix: economy wide implications." In *Australian Journal of Public Administration*, Vol 62, No 3, September 2003, at 33.

There are three quite distinct policy regimes affecting infrastructure provision and productivity in Australia. Up until the mid 1980s, state ownership of infrastructure industries was predominant, until recognition of the lacklustre performances of public enterprises prompted reform. The corporatisation and partial privatisation phase followed. The competition policy era emerged from the mid-1990s to the present. Competition policy reforms led to the establishment of a legislative regime to facilitate third party access to 'essential facilities' that exhibit natural monopoly characteristics, such as electricity transmission grids and rail tracks. More recently, the role of the private sector in contributing to infrastructure provision has taken on greater importance.³

1.1 The Relationship between Infrastructure Investment and Economic Growth

Infrastructure, or at least the services delivered by infrastructure, are an integral part of the Australian economy and play a vital role in the nation's economic growth and development. The Productivity Commission has noted that access to, and investment in, infrastructure services are central to economic performance and living standards. The Commission observed:

- The services from economic infrastructure account for more than 10 percent of Australia's gross domestic product;
- Infrastructure services are major inputs for Australian industries and businesses. Business use represents some 70 percent of total demand for the services of: power; water and sewerage; rail; pipelines; and other transport and communication services;
- Efficient infrastructure service provision is particularly important for Australia's traded goods sector;
- Economic infrastructure services account for some five percent of consumer spending.⁴

The Allen Consulting Group, in a report for the Property Council of Australia, notes that the link between public infrastructure and productivity growth has been empirically demonstrated. Quoting the work of Aschauer and the World Bank, whose studies have demonstrated large direct and spin-off benefits to productivity from infrastructure investment in countries around the world. Similarly, Australian studies have found that the accumulation of public capital (a proxy for public infrastructure investment) can have positive short to long term effects through inducing permanently higher levels of output and private investment.⁵

³ Makin, T. "The changing public-private infrastructure mix: economy wide implications." In *Australian Journal of Public Administration*, Vol 62, No 3, September 2003, at 38.

⁴ Productivity Commission, *Review of the National Access Regime*, Report No 17, AusInfo, Canberra, 2001, at 56.

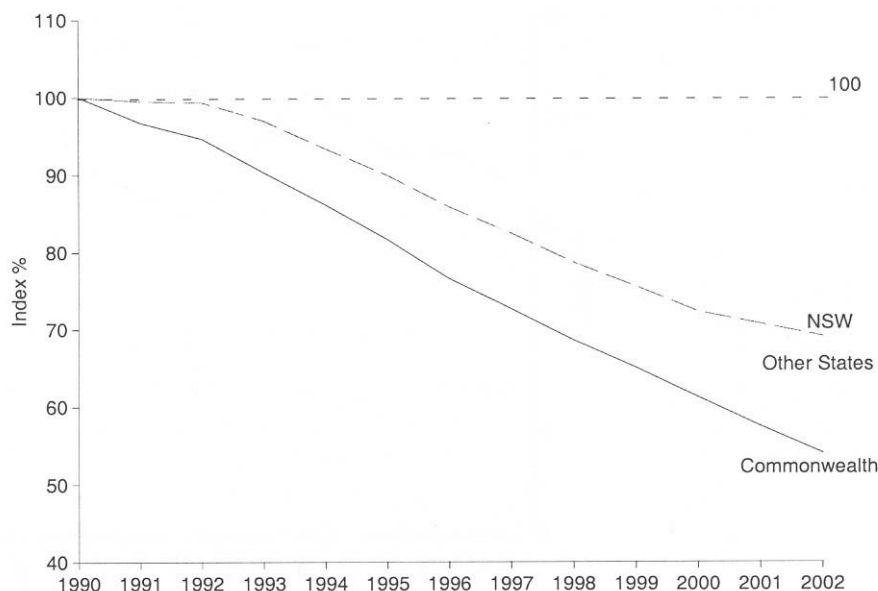
⁵ The Allen Consulting Group, *Funding Urban Public Infrastructure, Approaches Compared*. Report for the Property Council of Australia, August 2003 at 6.

However, the Public Accounts Committee report also canvassed some of these arguments, and noted studies of OECD countries in the 1980s that showed economic productivity increased while investment in infrastructure decreased. Whilst this may have demonstrated the long time lag between an increase in investment in infrastructure and an increase in productivity, others have postulated that the relationship between infrastructure and productivity may work in reverse – that instead of infrastructure investment raising productivity, gains in productivity (achieved through other, non-infrastructure means) will make governments more willing to invest in infrastructure.⁶ The Public Accounts Committee, recognising the continuing debate about the role of infrastructure investment and economic productivity, recommended that NSW Treasury carry out a study looking at this relationship.

2.0 INFRASTRUCTURE INVESTMENT IN AUSTRALIA AND NSW

The Allen Consulting Group notes that the last two decades have seen total government capital formation (as noted, a proxy for public infrastructure investment) decline as a proportion of Gross Domestic Product. This decline, which accelerates a trend apparent from the mid-1960s, is particularly clear at the Commonwealth level. Figure One reflects the change in Government capital formation as a proportion of economic activity since 1990 (ie, 1990 = 100 in the index) for the Commonwealth and NSW Governments. This highlights the relative decline in investment at all levels of government, although it is clear that a leading role has been played by the Commonwealth Government.

Figure One: Commonwealth and State Capital Formation, 1990 – 2002.



Source: The Allen Consulting Group, *Funding Urban Public Infrastructure, Approaches Compared*. Report for the Property Council of Australia, August 2003 at 16.

⁶ NSW Parliament Public Accounts Committee, *Infrastructure Management and Financing in New South Wales. Volume 1: From Concept to Contract – Management of Infrastructure Projects*, Report No 73, July 1993, at 11.

The Allen Consulting Group acknowledges the influence of privatisation of publicly provided infrastructure and economic reforms leading to more efficient operation and investment in public infrastructure. However, it argues that the fundamental cause for the decline in public capital formation has been the emphasis by governments at Commonwealth and State level upon fiscal consolidation. Over the last decade a marked shift in fiscal policy outcomes has seen substantial deficits reversed and most budgets are now in surplus. The general move from significant deficits towards budget surplus has largely been achieved by a reduction in capital rather than recurrent expenditure.⁷

Tony Makin, of the University of Queensland, noting the decline over recent decades in the expenditure on traditional infrastructure, also reviews some of the above arguments, and suggests:

- That the call for increasing public infrastructure spending to earlier levels ignores the fact that since the 1990s relatively lower public capital spending has been more than offset by relatively higher private capital spending in the economy;
- Public spending on traditional forms of infrastructure relative to GDP should not be as strong as in earlier decades because the industrial structure of the economy has changed markedly. Services now comprise over two-thirds of GDP and agriculture and manufacturing have become relatively less important. The need for traditional forms of economic infrastructure is being transformed into rising demand for the new infrastructure of modern communications which has become integral for transactions throughout the entire economy;
- The sound maintenance and improved efficiency of the existing economic infrastructure stock now makes it possible to manage without proportionately large increases in traditional infrastructure capital;
- In a small open economy like Australia dependent on foreign capital to fund its current account deficit, the impact of higher infrastructure spending by either the public or private sector could have damaging macro-economic effects if foreign investors disapprove on the grounds that it was economically unjustifiable. However, important forms of social infrastructure that are internationally recognised as productivity enhancing, such as judicious targeted spending on education and health, raise the value of the nation's human capital stock, and long term economic benefits should accrue. In other words, external deficits attributable to highly productive infrastructure spending should easily be sustainable.⁸

Clearly, there is no exact answer as to how much governments and society should be spending on infrastructure. However, according to National Economics, and as evidenced by the NSW Infrastructure Report Card as reported below, there is emerging evidence that Australia's infrastructure is not keeping pace with the demands placed on it by our growing population and economy.

⁷ The Allen Consulting Group, *Funding Urban Public Infrastructure, Approaches Compared*. Report for the Property Council of Australia, August 2003 at 16.

⁸ Makin, T. "The changing public-private infrastructure mix: economy wide implications." In *Australian Journal of Public Administration*, Vol 62, No 3, September 2003, at 35.

2.1 The 2003 NSW Infrastructure Report Card

In August 2003 Engineers Australia released its report card on the state of infrastructure in NSW. The report provides a strategic overview of NSW infrastructure, and rates the quality of: roads; railways; water; wastewater; stormwater; and electricity infrastructure. Social infrastructure such as education facilities and health institutions were not rated. Significant issues identified included:

Strategic planning, coordination and integration: - strategic planning of land use and infrastructure needs to incorporate updates to accommodate changes in strategies and include long term (at least 20 years) schedules of works and budgets. Three initiatives which are advancing strategic planning and integration in NSW are:

- The NSW State Infrastructure Strategic Plan, which contains the State Government's priorities for major (> \$20 million) infrastructure over the next ten years, proposed to be updated annually;
- The Commonwealth Green Paper, Auslink: Towards the National Land Transport Plan, which aims to develop a national land transport plan covering 20 years;
- The 'whole of government' approach to land use planning and infrastructure provision for western Sydney growth.

The report noted that notwithstanding the above initiatives, a gap remains in developing a NSW statewide long term infrastructure strategy which considers all infrastructure across all private and public sectors.

Funding: - lack of funding has been identified as a major issue. Difficulties with funding include:

- Only short term budgetary commitments to critical infrastructure elements which can affect overall planning (eg, no long term strategic plans for roads and railways);
- Need for increased funding for maintenance and renewals (eg ageing water, sewerage);
- Provision for changing community needs and levels of service (eg effluent reuse and environmental flows in rivers);
- Restrictions on Council funding mechanisms through IPART and rate pegging;
- Competing priorities for limited funds;
- The provision of grants for capital works only, with no allowance for ongoing maintenance.

Sustainability: - within the context of sustainable development, many issues need to be considered in developing infrastructure strategies for NSW, including:

- Infrastructure assets are characterised by their longevity and by the major effects they have on quality of life in economic, environmental and social terms;
- Resources are limited and need to be managed and need to be managed through conservation, reuse and renewable strategies;
- Land use policies must be sustainable;
- Equity is a significant issue either with respect to service levels between new and old areas or generations.

Levels of Service: - in assessing infrastructure, it has been necessary to consider the relationship between level of service, community expectations, performance measurement and benchmarking. Generally most asset management systems are focussed on performance measurement related to benchmarks, and there is not a clear trail which links this to level of service nor community expectations.

Security: - following the 11 September 2001 attacks in the United States and the October 2002 Bali attacks, addressing terrorist risks has become a priority for infrastructure owners and operators. The formation of the NSW Critical Infrastructure Review Group in 2002 by the Government has assisted considerably in identifying and treating risks in critical infrastructure and icons.

Engineers Australia then assessed NSW infrastructure with the following ratings:

A	Very Good	Infrastructure is fit for its current and anticipated purpose in terms of infrastructure condition, committed investment, regulatory appropriateness and compliance, and planning processes.
B	Good	Minor changes are required in one or more of the above areas to enable infrastructure to be fit for its current and anticipated purpose.
C	Adequate	Major changes required in one or more of the above areas to enable infrastructure to be fit for its current and anticipated purpose.
D	Poor	Critical changes required in one or more of the above areas to be fit for its current and anticipated purpose.
F	Inadequate	Inadequate for current and future needs.

As shown below, the highest rating provided by Engineers Australia was a B (good), for electricity. The lowest rating was D (poor), for rail and stormwater infrastructure. A summary of the NSW results is given below.

Table 1: NSW Infrastructure Score Card – Engineers Australia

Category	Grade	Comment
National Roads	C+	Major upgrade works have been carried out and the overall quality of national roads is improving. A lack of Commonwealth funding commitment casts doubt on the sustainability of the rating. The AusLink proposal is likely to reduce road funding but will significantly benefit planning and coordination of national roads.
State Roads	C+	The condition of state roads is adequate and generally improving, particularly in urban areas. State government funding initiatives, such as the Timber Bridge Replacement Program, have had positive results. There is a need for longer term NSW network planning strategy and commitment to funding. Growing private motor vehicle use and resulting urban congestion and greenhouse emissions are

		of concern.
Local Roads	C-	The Roads to Recovery program has improved local roads. However, there is still a significant backlog of work. The overall rating for local roads is below adequate. There is a need for a regional approach, rather than a council-centric one, to road management in order to improve efficiencies. The lack of short, medium and long term capital and maintenance funding is an issue.
Rail	D	While there have been a number of recent initiatives which are reforming rail management and increasing investment, the future of NSW rail remains uncertain. Inadequate funding and capacity problems of the metropolitan network are major issues. The delay in resolution of the Australian Rail Track Corporation proposal and the consequential delay in improving the Sydney-Melbourne interstate line is of concern.
Metropolitan Urban Potable Water	B-	Existing impoundments provide a relatively secure source of supply, and water treatment facilities provide high quality water. Areas of concern include the limited progress in utilising demand management, the low uptake by consumers of alternative sources of water for non-potable uses, and the low level of expenditure on rehabilitating aged infrastructure.
Non Metropolitan Urban Potable Water	C-	Significant improvements are required by the 20% of non-metropolitan urban utilities which are not producing high quality potable water. Areas of concern include the limited progress in utilising demand management, the low uptake by consumers of alternative sources of water for non-potable uses, and the complete lack of expenditure by 80% of non-metropolitan utilities on rehabilitating aged infrastructure.
Metropolitan Urban Wastewater	C-	Effluent reuse in major urban areas is poor. The high level of stormwater inflow and infiltration into sewerage systems during wet weather is unacceptable and requires attention. Major rehabilitation of ocean outfall sewers is yet to be carried out.
Non Metropolitan Urban Wastewater	C-	The worst performing 20% of non-metropolitan urban utilities need to improve their effluent quality significantly. Other areas of concern include the need to increase effluent reuse as it is almost non-existent in 80% of non-metropolitan urban utilities, and to review the complete lack of expenditure by 80% on non-metropolitan urban utilities on rehabilitating or renewing aged infrastructure.
Stormwater	D	Much of NSW's stormwater infrastructure is old and does not meet current requirements. Consequently, not only does it not have the capacity to cope with major rain events, it does not meet desirable water quality and pollution standards. The diversity of ownership and responsibilities for stormwater assets, and their different management

		arrangements, create significant complexity and inefficiency.
Electricity	B	While NSW's transmission and distribution systems place the State in the top 3 of the Australian States, generation availability for the last two years has been below the national average. The state of the electricity infrastructure is adequate for current and short term needs. However, there is a concern that the infrastructure may not meet demands in the medium and longer term due to capacity and reliability issues.

Source: Engineers Australia, *2003 New South Wales Infrastructure Report Card*, August 2003.

Engineers Australia noted that for those sectors for which a score of D was given (ie, rail and stormwater), the infrastructure is in a disturbing state and requires immediate attention. Engineers Australia noted that whilst NSW infrastructure is generally in a better state than the average for Australia, all sectors required significant enhancement before it actually meets the State's current and future needs. The major impediments to infrastructure investment were identified as: a lack of coordination between spheres of government; a failure to plan for infrastructure which has a life span of up to 100 years or more, and the low priority given to infrastructure provision.⁹

3.0 THE FUNDING OF PUBLIC INFRASTRUCTURE

The major methods of funding infrastructure available to governments fall into five main categories:

- Government debt – the traditional way governments have funded long lived public infrastructure assets with long-term debt instruments such as bonds;
- Taxes – there are a range of State taxes including payroll tax, stamp duties and land tax. Municipal rates on residential, commercial and industrial property are also considered to be a tax at local government level;
- User charges – these can include fares and tolls or tariffs, with charges normally linked to the cost of service provision. They differ from taxes because users can reduce their costs by reducing their use;
- Producer levies – these are charges that are applied to the suppliers of public infrastructure services. Developer contributions are an example of this approach in use across Australia;
- Special Purpose Vehicles – these relate to separate legal entities that are established to invest in infrastructure assets, operate them and to recover a return to repay the investment from users. A key characteristic is that they are 'off-budget', ie, their revenues and expenditures are not recorded within general government accounts. Assets may be government or privately owned or a mixture of both, and also includes private investments that are supported by incentives or purchasing/servicing agreements with the public sector to provide public benefits.¹⁰

⁹ Engineers Australia, *2003 New South Wales Infrastructure Report Card*, August 2003.

¹⁰ The Allen Consulting Group, *Funding Urban Public Infrastructure, Approaches Compared*. Report for the Property Council of Australia, August 2003 at 95.

The Allen Consulting Group reviewed the best method of funding infrastructure, as measured against criteria of: effectiveness; efficiency; equity; stability/reliability; administration costs; compliance costs; transparency and certainty; and stakeholder support. It found that there is no ‘silver bullet’ solution, and that every approach has disadvantages as well as advantages. Four approaches were considered an equal first: state taxes; municipal rates; debt; and user charges. In further analysis, and in line with practical experience of governments where state taxes and debt form the most prevalent approach in funding the stock of infrastructure, these approaches were viewed as being superior to the others. Municipal rates, while faring well in an aggregate sense, suffer from shortcomings with regard to effectiveness and reliability, which, under the current government regulatory framework of rate pegging is likely to continue. These drawbacks seriously compromise the fundamental ability of municipal rates to support additional investment in infrastructure. Although user charges were ranked highly, they are constrained by the fact that it is not practical or efficient to apply charges for all public infrastructure services.

Special Purpose Vehicles, such as privately financed projects (PFPs – as discussed later in the paper), were viewed as being close behind the first tier of best approaches, as they share many of the same characteristics. They were viewed as behind because of higher transaction costs and uncertainty about how effective they will be in raising significant funds soon. Allen Consulting Group noted that governments have embraced the idea of new forms of special purpose vehicles (such as PFPs) but they are proving difficult to implement in practice.

The review concluded that producer charges are not efficient or fair and involve significant compliance costs. As a source of finance they are susceptible to the vagaries of the building and construction cycle, and whilst they may be effective in raising finance for modest scale urban infrastructure, their capacity for financing significantly larger infrastructure investments is limited.¹¹

It is clear that different methods of funding will be appropriate for different types of infrastructure – either social or economic. Whilst the Allen Consulting Group concluded that producer charges are neither efficient or fair, the 2003 Ministerial Inquiry into Sustainable Transport in NSW, chaired by Tom Parry, concluded that development levies should be used to promote and fund public transport use.¹² The Inquiry noted that for equity reasons, they are most suited to funding network extensions in less developed areas, and will require supplementary funding from elsewhere. The Inquiry concluded that NSW needs a twenty-first century solution to create a sustainable transport system, the cost of which will run into billions of dollars. To pay for this, it was considered critical that new funding sources be explored, and their relative merits and risks evaluated. Table 2 summarises the issues associated with the main funding sources of sustainable transport.

¹¹ The Allen Consulting Group, *Funding Urban Public Infrastructure, Approaches Compared*. Report for the Property Council of Australia, August 2003 at 95.

¹² NSW Government, *Ministerial inquiry into sustainable transport in New South Wales, Options for the Future, Interim Report*, August 2003, at 81.

Table 2: Summary of issues associated with the main funding sources of sustainable transport

Funding model	Efficiency	Effectiveness	Equity	Appropriateness
User pays	Is the only way to reduce the gap between the cost of an additional journey and the price paid for it.	Is not suitable for providing up-front capital investment but can be used to cover funding shortfall.	Affordability and access to alternatives are important, but could be targeted in other ways.	Depends on whether other mechanisms can encourage greater public transport use.
Development charges	Transfers some costs to beneficiaries. Collection is possible via existing development consent process.	Cannot be used to fund infrastructure already in place, and will only partly fund any new extensions or developments.	Depends on the basis on which the rate is set, and how funds raised are expended.	Depends whether the level discourages development near public transport.
Land value capture	Enables some costs to be borne by beneficiaries. Collection is possible via existing land charges.	Cannot be used to fund infrastructure already in place, and will only partly fund any new extensions or developments.	Other households out of the value capture area may benefit from network extensions, but not pay indirect charges. Also, is hard to isolate increases in value attributable to transport.	Need to ensure rezoning does not compromise other urban planning objectives.
Public-private partnerships	Has potential to reduce costs if risks can be efficiently allocated.	Offers the capacity to draw on private sector funds for large developments.	Private investors need access to sustainable revenue (either from increased patronage and/or higher ticket prices). Can be difficult to separate private from public revenue.	May depend on the level of integration with the existing transport network.
Private franchise	Has potential to reduce costs if risks can be efficiently allocated.	Offers the capacity to draw on private sector funds for large investments.	Need to ensure incentives are in place to avoid a fall in service quality.	Depends on whether segmentation reduces integration with other public transport, and the effect on competition.
Private investments	Provides another potential revenue stream for public transport.	Offers the capacity to draw on private sector funds for large investments.	Can be structured with a beneficiary-pays component.	Improves the use of public transport infrastructure.
CBD employee tax	May reduce costs if peak-hour congestion can be reduced.	Is not able to provide sufficient capital funds for up-front investment.	Does not distinguish between transport users/non-users. Could impose an additional charge on groups already heavily taxed.	Is unlikely to encourage greater public transport use.

Transport levy	Is unlikely to affect costs.	Is not able to provide sufficient funds for up-front investment.	Does not distinguish between transport users/non-users. Could impose an additional charge on groups already heavily taxed.	Is unlikely to encourage greater public transport use.
Public debt	Is unlikely to reduce net costs, given debt-financed investments have not been proven to generate revenue.	Offers the capacity to draw on private sector funds for large investments.	May adversely affect state credit rating, and thereby non-transport investments.	Has no impact on encouraging greater use of public transport.

Source: NSW Government, *Ministerial inquiry into sustainable transport in New South Wales, Options for the Future, Interim Report*, August 2003, at 82.

4.0 STATE INFRASTRUCTURE STRATEGIC PLAN

The *State Infrastructure Strategic Plan* contains the Government's priorities for major infrastructure over the next ten years. The Plan is to be reviewed and updated annually, and is aimed at bringing a systematic approach and comprehensive framework to infrastructure planning. The Government hopes that this type of approach will enable the private sector to gauge the opportunities for future investment and position itself to assist with the Government's delivery of infrastructure and services by providing private financing, expertise and appropriate risk sharing.

The Strategic Plan clearly indicates that infrastructure planning and provision in NSW takes place within the Government's fiscal strategy framework. The framework is set by the *General Government Debt Elimination Act 1995*, which specifies: a timetable for eliminating general government debt; maintaining the Government sectors' net worth in real terms from year to year; and restraining government spending and taxation to strengthen the State's competitiveness and attract business investment. The Plan states that the Government intends to maintain the acquisition of infrastructure and other assets at constant rate in real per capita terms while continuing to achieve its fiscal strategy objectives. However, it states that the Government will consider alternative means of service delivery, and private financing is one option that may be considered.

All NSW Government agencies are required to manage their assets and infrastructure portfolios in accordance with the Government's Total Asset Management policy. This policy requires each agency to produce a total asset strategy each year, and is comprised of four components:

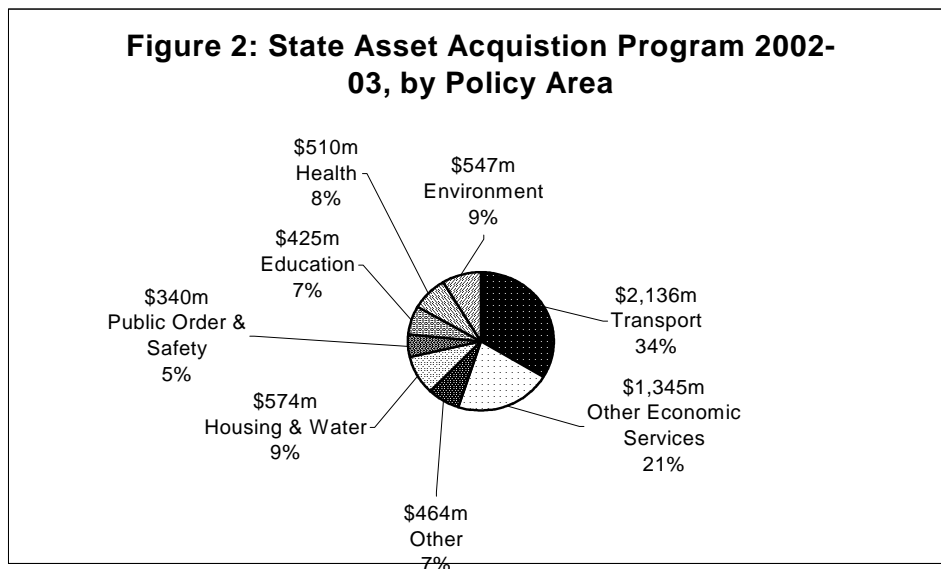
- Capital Investment Strategic Plans – ensuring that there are clear and detailed links between assets and the service delivery outcomes they support, and contain capital investment proposals;
- Asset Maintenance Strategic Plans - manage the risks of assets in order to support service delivery strategies, and involve an analysis of maintenance needs against agency service delivery objectives and government priorities;
- Office Accommodation Plans – determine whether accommodation assets should be

enhanced (by capital investment), maintained or disposed of;

- Asset Disposal Plans – these are an assessment of those assets that the Asset Strategy indicates are no longer effectively meeting their service delivery outputs at the lowest long-term cost to Government, allowing agencies to dispose of redundant assets that might otherwise reduce efficient and effective service delivery.¹³

The State Asset Acquisition Program (SAAP) provides for the construction, acquisition and upgrading of the physical assets of the State. The investments contained in the SAAP represent those priorities selected by Government, based on an assessment of submissions by agencies. The SAAP is jointly carried out in the general government and public trading enterprise sectors. General government sector agencies are engaged in essential public services such as roads, health, education and police. Public trading enterprise sector agencies provide major economic infrastructure assets such as water, power and public transport, and have a commercial charter.

In the four years to 30 June 2006, the State Asset Acquisition Program is expected to total \$26,125 million, which is an increase of 26 percent spent in the four years to 30 June 2002. For the year 2002-03 the Program had a budget of \$6,350 million, which was broken down into the following portfolio areas, as shown in Figure 2.



Source: NSW Government, *State Asset Acquisition Program 2002-03*. Budget Paper No 4, at 3. After the re-election of the NSW ALP Government in March 2003, the government departments Land and Water Conservation and Planning NSW were amalgamated to form the Department of Infrastructure, Natural Resources and Planning. It has been reported that the new department is developing a new state infrastructure strategy, with one aim being to streamline processes for the private sector when approaching the government with unsolicited proposals for new developments.¹⁴ In reference to the formation of the new department, the responsible Minister the Hon Craig Knowles MP noted:

¹³ NSW Government, *State Infrastructure Strategic Plan*, December 2002, at 17.

¹⁴ "NSW acts on PPPs." In *The Australian Financial Review*, 11 July 2003.

The move will also allow the Government to better link vital infrastructure such as transport and other facilities and services to the needs of communities now and in the future. Already discussions are underway between Treasury, the Department of Commerce and my new department to overhaul the way we plan and deliver infrastructure. In future we want infrastructure to be better aligned with the changes that are taking place in the community, such as the population growth and the aging of the community. We want to make it easier for the private sector, for example, to work with government to share their ideas about infrastructure provision. We want to establish a long-term view about the type of infrastructure we need to give greater certainty to business and to assist in capital planning, whether it is on or off budget.¹⁵

5.0 THE ROLE OF THE PRIVATE SECTOR IN THE PROVISION OF INFRASTRUCTURE

In Australia the term Public Private Partnership (PPP) is used broadly and encompasses a wide variety of financing and contracting arrangements whereby the private sector undertakes some role in the provision of infrastructure. In considering the optimal mode of project delivery, every aspect of a proposed PPP is negotiable, including: ownership structure (short of privatisation); sources of remuneration; risk allocation; publicly or privately financed; and the delineation between core and non-core services (ie, those to be retained by government and those to be out-sourced).¹⁶ A PPP tends to differ from more traditional contract arrangements for public works and services through the following characteristics: the long time frames for the PPP contract; the sharing of risks and rewards; the involvement of joint decision making; and the greater involvement of the private sector particularly in financing.¹⁷

Despite its many variations, as noted below, the key features of a PPP include:

- Control of the core services retained by Government;
- The development of Public Sector Comparators, which is a process of comparing the cost of private bids to a hypothetical, risk adjusted cost of public delivery. The Comparator is intended to enable the government to determine whether it is obtaining value for money from private sector bids;
- Safeguarding of the public interest;
- The provision of services on a performance based contract; and
- An overarching 'partnership' between the public and private sectors.¹⁸

¹⁵ NSWPD, Hon Craig Knowles, Minister for Infrastructure, Planning and Natural Resources, 29 May 2003, at 1499.

¹⁶ Jones, D. "Evaluation what is new in the PPP pipeline." In *Building and Construction Law Journal*, 2003, Vol 19, at 250.

¹⁷ Hodge, G. "Who steers the State when Governments sign Public-Private Partnerships?" in *The Journal of Contemporary Issues in Business and Government*, 2002, Vol 8, No 1, at 8.

¹⁸ Jones, D. "Evaluation what is new in the PPP pipeline." In *Building and Construction Law Journal*, 2003, Vol 19, at 251.

There are many types of public private partnerships, and some of the most common are:

- Design and construct – the government specifies the asset it requires in terms of its functions and desired outcomes. The company is responsible for designing and building the asset and managing any related risks. The asset is then passed to the government to operate;
- Operate and Maintain – an existing government owned asset is managed by a company for a specified period. The company will be responsible for providing the services to the customer (retail or wholesale), maintaining the asset to a specified condition and ensuring that management practices are efficient;
- Design, build and operate – effectively a design and construct and operate and maintain contract rolled in together. The company is usually also responsible for financing the project during the construction period. The government purchases the asset from the company for a pre-agreed price prior to (or immediately after) commissioning the asset and takes all ownership risks from this time on. The company retains the management function and related risks;
- Build, Own Operate Transfer (BOOT) – the company is responsible for design and construction, finance, operations, maintenance and all commercial risks associated with the project. It owns the project through the concession period and the asset is then transferred back to the government at the end of the term, often at no cost;
- Build Own Operate (BOO) – similar to BOOT projects, but the company retains ownership of the asset in perpetuity. The government also agrees to purchase the services produced by the asset for a fixed length of time;
- Lease Own Operate (LOO) – similar to BOO projects, but an existing asset is leased from the government for a specified period. The asset may require refurbishment or expansion but no ‘new build’ assets are necessary;
- Alliance – an agreement between the company and the government to share the benefits or the costs associated with project risks. The parties agree to a benchmark price, time, service level and any benefits (or costs) achieved are shared between the parties according to a pre-agreed formula.¹⁹

A survey of the extent of privately funded, owned and operated public infrastructure by the Australian Council for Infrastructure Development found over 200 projects nationwide with a total investment of \$113,559 million. Table 3 shows where most of this investment has been allocated:

¹⁹ Australian Council for Infrastructure Development Limited, *Public Private Partnerships - A Brief Summary*.

Table 3: The extent of private investment in public infrastructure

Sector	Industry	Total Value of Private Sector Investment (\$M)	% Share of Total Investment	Gross Employment Costs (\$m)	Number of Employees
Energy	Electricity	37,500	33.0	800	13,600
	Gas	19,300	17.0	600	9,600
Water		2.0	2.0	50	700
Transport	Roads	9,100	8.0	26	600
	Rail	6,500	5.7	400	2,400
	Ports	1,200	1.1	28	600
	Airports	10,000	8.8	120	36,800
Telecommunications		23,600	20.7	1,200	34,000
Social	Hospitals	2,200	2.0	240	5,200
	Justice	1,000	0.9	350	1,300
	Stadiums	800	0.7	13	500
Total		113,400	100	3,587	105,000

Source: Australian Council for Infrastructure Development, *Infrastructure Survey 2003, Summary of Results*.

The data shows that the largest proportion of private investment in infrastructure can be found in the energy sector, particularly in the area of electricity assets. The transport sector has the next largest investment, followed by the telecommunications sector. The majority of privately owned infrastructure assets are located in Victoria (34% of all assets), which is to be expected considering the series of privatisations in the energy and transport sectors by the Kennett Government.²⁰

The contribution of private sector funding to infrastructure provision in NSW in the decade to 2000 was about seven percent of the State's capital budget, worth an estimated \$5 billion. Privately financed projects to date include:

- Sydney Olympic Venues – Stadium Australia, Superdome, Athlete's Village;
- Tollways – Sydney Harbour Tunnel, M4, M5, M2 and Eastern Distributor;
- Rail Transport – Sydney Airport rail line, Pyrmont Light Rail;
- Health Related – Port Macquarie Hospital, Hawkesbury Hospital, Hospital Car Parks;
- Water and Sewerage – Prospect, Macarthur and Illawarra Water Treatment Plants, Blue Mountains Sewerage Tunnel;
- Social Housing;

²⁰ Australian Council for Infrastructure Development, *Infrastructure Survey 2003, Summary of Results*.

- Other Projects – Opera House Car Park, Junee Prison.²¹

In regards to the provision of transport, a recent Ministerial Inquiry into sustainable transport noted that the use of private funding for road infrastructure projects has been relatively successful, but less so for rail.²²

The fundamental basis for the development of infrastructure related PPPs is that governments get better value for money. For instance, the United Kingdom Government has reported that their privately financed projects deliver savings of an average 17 percent over traditional forms of service delivery.²³ In Victoria, percentage savings in PPP projects compared to the Public Sector Comparator have been as high as 30 percent for a waste water facility at Echuca Rochester, to as low as approximately three percent for the County Court House program.²⁴ The NSW Treasurer Hon Michael Egan MLC, in announcing the successful consortium to build nine new public schools and maintain them for 30 years, stated that the privately financed project will save four percent, or \$8 million, compared to traditional methods. In addition, the new schools will be built and opened within two years instead of eight if the Government built them.²⁵

However, Hodge notes that internationally, the economic and financial benefits are still subject to debate and hence some uncertainty. Hodge then notes some potential problems with PPPs, including: to what extent are governments now entering contracts (of up to several decades) reducing the capacity and flexibility to make future decisions in the public interest; PPPs seem to have provided only limited opportunity for meaningful levels of transparency or public participation; and the clarity of partnership financial arrangements can be difficult to understand, leading to citizens not having confidence in the arrangements.²⁶

The reality is that public support for PPP projects cannot be guaranteed. Polling for Macquarie Bank has revealed that the first instinct of the community is to reject an increased role for the private sector. However, when given a definition of what a PPP is, 65

²¹ NSW Government, *Working with Government. Private Financing of Infrastructure and Certain Government Services in NSW*, NSW Government Green Paper, November 2000 at 9.

²² NSW Government, *Ministerial inquiry into sustainable transport in New South Wales, Options for the Future, Interim Report*, August 2003, at 69.

²³ NSW Government, *Working with Government. Private Financing of Infrastructure and Certain Government Services in NSW*. Green Paper, November 2000 at 26.

²⁴ Fitzgerald, J. (Victorian Department of Treasury and Finance), "Partnerships Victoria" in *National Public Private Partnerships Summit, Creating and Maintaining Profitable Partnerships*, 26-27 June 2003, Melbourne.

²⁵ The Hon Michael Egan MLC, Treasurer of NSW, *Media Release*, "New Schools Privately Financed Project", 3 December 2002.

²⁶ Hodge, G. "Who steers the State when Governments sign Public-Private Partnerships?" in *The Journal of Contemporary Issues in Business and Government*, 2002, Vol 8, No 1, at 10.

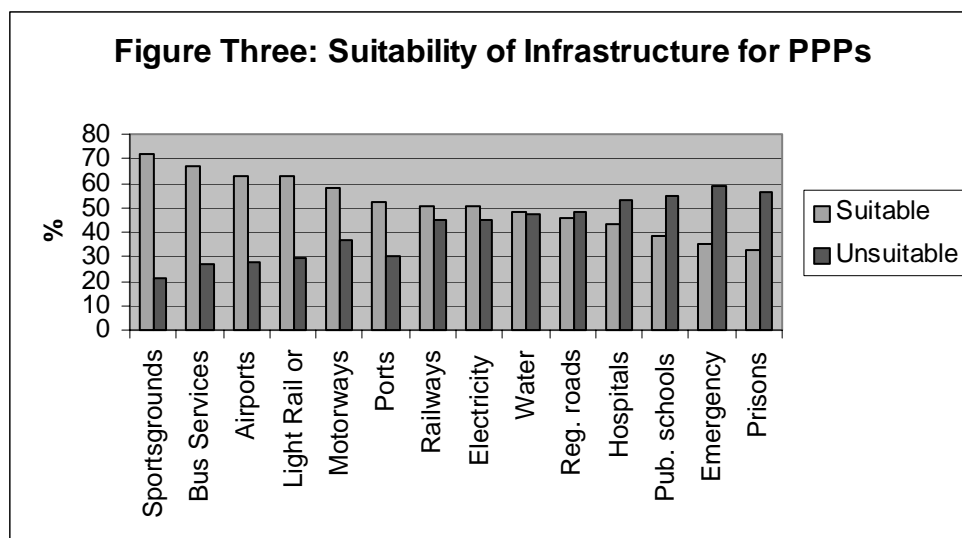
percent consider them to be a ‘good idea’. Reasons for PPP support included:

- Creation of local jobs (78% agree);
- Building of infrastructure that the government would not build (74% agree);
- Ability to access ‘the best of both worlds’ with government and private sector working together (73% agree);
- Fast and cost effective method of building new facilities (71% agree).

In contrast, reasons for public opposition to PPPs were:

- Fees and charges continually increasing (62% agree);
- The user has to pay twice – via both taxes and then charges (61% agree);
- ‘User pays’ concept is not affordable for many members of the public (61% agree);
- Emphasis is on profit over good maintenance and community needs (59% agree);
- PPPs on toll roads could lead to paying multiple fees or tolls (59% agree).²⁷

The polling found the acceptability for a PPP project varied according to its function, with (the highest) 72 percent finding a sportsground / stadium PPP project suitable, and (the lowest) only 33 percent thinking a prison is a suitable PPP project. The public perception of the suitability of a range of infrastructure for a PPP project is shown below in Figure Three.



Source: Lilley, M. (Macquarie Bank Limited), “Australia’s state of readiness for PPP delivery.” in *National Public Private Partnerships Summit, Creating and Maintaining Profitable Partnerships*, 26-27 June 2003, Melbourne.

Shaun Drabsch, Executive Director of the Queensland Government Infrastructure Partnerships Taskforce, believes that the community may only come to understand the benefits of PPPs as more are used to successfully deliver infrastructure facilities across Australia. However, the likelihood of community understanding emerging is threatened by

²⁷ Lilley, M. (Macquarie Bank Limited), “Australia’s state of readiness for PPP delivery.” in *National Public Private Partnerships Summit, Creating and Maintaining Profitable Partnerships*, 26-27 June 2003, Melbourne.

the existence of poor examples of private sector engagement, such as some early hospital projects and the commercial failure of public transport deals in Victoria, NSW and Queensland. These failures make the general public nervous about their continued access to public services. However, even when these PPPs fail, Drabsch argues that the net cost of government services still lies below the cost government would have incurred had traditional procurement been applied, though it is noted that the public and media are sceptical of these arguments.²⁸

6.0 THE NSW GOVERNMENT WORKING WITH GOVERNMENT POLICY

In November 2001 the Premier Hon Bob Carr MP released the *Working with Government Policy*, which contained revised guidelines for Privately Financed Projects (PFPs), which is the NSW name for Public Private Partnerships.

The principal features of a PFP under the guidelines were:

- A service normally provided to the public by government involving the creation of an asset through private sector financing and ownership control; and
- A contribution by government through land, capital works, risk sharing, revenue diversion or other supporting mechanisms.

PFPs differ from other public private partnerships in that they are typically complex and involve large capital costs, lengthy contract periods involving long term obligations and a sharing of risks and rewards between the private and public sectors. The guidelines stated that the Budget Committee of Cabinet will review and progressively approve a PFP at each phase of its development. Separate environmental and planning approval is also required.

Important elements of the policy were:

- The opportunity for private financing of social infrastructure, subject to proposals demonstrating overall community benefit and value for money;
- The Government continuing to deliver core services, such as teaching services in education and clinical services in the health sector;
- The release of a list of Emerging Opportunities for privately financed projects in NSW, valued at over \$5 billion;
- The establishment of the NSW Infrastructure Council;
- The appointment of the Director-General of the Premier's Department as the point of contact for unsolicited infrastructure proposals from the private sector.

The Government has also emphasised that the use of privately financed projects does not mean that the overall level of resources available to spend on government funded social infrastructure can expand. This is because even though the infrastructure may be financed by the private sector, the government, through payments made through the contract's life will ultimately fund it. The Government stated: "Private provision of infrastructure is

²⁸ Drabsch, S. "The Australian Outlook – Project Opportunities and Challenges." in *National Public Private Partnerships Summit, Creating and Maintaining Profitable Partnerships*, 26-27 June 2003, Melbourne.

therefore not a ‘magic pudding’ that can the alleviate resource constraints all governments necessarily face.”²⁹

The essential rationale for the Government’s use of PFPs is improved value for money. To determine whether private finance offers superior value for money over traditional methods of government delivery, a Public Sector Comparator (PSC) will be developed for all proposals. The Comparator is a model of the costs (and if any, revenues) associated with a proposal under a government financed method of delivery, and can provide government with an approximate measure of the range of outcomes it is likely to face in delivering a project under traditional methods. The Comparator is used as the benchmark for assessing the potential value for money of private party bids in privately financed projects.

There are important differences between the provision of economic and social infrastructure, so a Public Sector Comparator will be developed for each. Key differences are as follows:

Economic Infrastructure

- Revenues are often from third parties – subject to market using the facility;
- Infrastructure provider faces genuine market risk;
- Traditionally delivered through a Government Business Enterprise (including a State-owned Corporation);
- Revenue risks are a key driver of financial outcomes.

Social Infrastructure

- Usually paid for out of consolidated revenue – subject of Government resource allocation decisions;
- Usually no market risk to provider of infrastructure – payment streams are usually subject to long term contract or budget allocation;
- Traditionally delivered through a general Government agency;
- Costs risks are a key driver of financial outcomes.³⁰

For example, the private consortium which financed and built the Sydney city to the airport railway discovered that revenue risks are a very real driver of financial outcomes. By comparison, the Government has put forward the financing, delivery and maintenance of nine new schools in urban release areas as a privately financed project. In this case, the Government will make monthly payments to the winning consortium (Axiom Education), but the risks lie in the cost control of the project. Successful PFPs need good risk allocation, and some of the potential risk transfers in public-private partnerships are shown in Table 4 below.

²⁹ NSW Treasury, Office of Financial Management, *Private Provision of Public Infrastructure and Services*, Research and Information Paper, April 2002, at 4.

³⁰ NSW Government, *Working with Government, Guidelines for Privately Financed Projects*, November 2001, at 46.

Table 4: Potential risk transfer in public-private partnerships

Stage of Project	Type of Risk	Public Sector Delivery	PPP Structure	
			Public Sector	Private Sector
Development Phase	Design risk	X		X
	Technology risk	X		X
	Urban planning risk	X	X	
Funding Phase	Interest rate risk	X		X
	Foreign exchange risk	X		X
	Inflation risk	X		X
	Default risk	X	X	
Construction Phase	Construction risk	X		X
	Political risk	X	X	
	Regulatory risk	X	X	
	Industrial relations risk	X		X
	Environmental risk	X	X	
	Force majeure risk (risk of unforeseeable major environmental and social events)	X	X	
Operation Phase	Performance risk	X		X
	Patronage risk	X		X
	Operating cost risk	X		X
	Residual value risk	X		X
	Safety risk	X		X
	Competition risk	X		X
	Pricing risk	X		X
	Transport integration	X		X

Source: NSW Government, *Ministerial inquiry into sustainable transport in New South Wales, Options for the Future, Interim Report*, August 2003, at 69.

Highlighting the dangers of who carries the risk is the example of the Sydney Water Board and their water treatment plants. The private sector funded, built, own and operate four water treatment plants – Woronora, Illawarra, Macarthur and Prospect. In 1993 the Public Accounts Committee applauded Sydney Water’s model of approaching the private sector for infrastructure investment. The Committee wrote: “... [Sydney Water] prepared a set of ‘Commercial Principles’ which, among other things, detailed in a reasonably scrupulous and well thought-out way the risks it envisaged would be allocated to each party to the contract. For example, design and construction risk, industrial relations risk, performance risk, operations risk, taxation risk and natural disasters risk, would all be borne by the private water treatment company; the Board and the company together would bear market, supply of raw water, Loan Council, and technical obsolescence risks, and the Board alone would bear the risk of operating the upstream facilities like rivers systems.... This should be a model for other agencies.”³¹

However, a drinking water contamination incident in 1998, when *Cryptosporidium* and *Giardia* were detected in the reticulation system, led to the Sydney Water Inquiry, chaired by Commissioner Peter McClellan QC. The Commissioner identified several problems with the assessment of the project under the *Environmental Planning and Assessment Act 1979*, and wrote:

The provisions of Part V of that Act are designed to ensure that decisions on major Government projects are taken after consideration of all relevant environmental matters. The environmental assessment process is intended to assist the decision making process of the Board, including the choice of appropriate technology. This is made difficult when the project itself will be defined by the tenderer who wins the contract. However, I doubt there is any practical alternative. Obviously the project which the Board would prefer to implement must be the subject of an environmental evaluation. In this case, because the parameters for efficiency of the plant had been defined at the tender stage, the desire of the Environment Management Unit to include a performance standard for *Cryptosporidium* and *Giardia* in the environmental determination caused difficulties and could not have been carried through to the contract.³²

Commissioner McClellan found that whilst there was a good overall working relationship between Sydney Water and the private operator of the water treatment plants (AWS), the contamination event demonstrated that communication between the parties is not always effective. With another 23 years to go for AWS to operate the water treatment plant (at the time of the Inquiry’s report in 1998), the Commissioner considered it fundamental to the successful operation of the plant that there be effective communication between the parties. The Commissioner also found that the secrecy provisions of the contract between Sydney Water and AWS were excessive, and in relation to areas of public health, the entitlement of

³¹ NSW Parliament Public Accounts Committee, *Infrastructure Management and Financing in New South Wales. Volume 1: From Concept to Contract – Management of Infrastructure Projects*, Report No 73, July 1993, at 72.

³² Sydney Water Inquiry, *Final Report Volume 2*, December 1998, at 286.

the public to know contractual details must prevail over private commercial interests.³³

The Working with Government Guidelines, released in 2001, provide further information on the relationship between the *Environmental Planning and Assessment Act 1979* and PFPs. The Guidelines identified two likely scenarios as to the timing of private sector involvement in the environmental planning and assessment process. These were:

- An agency gains approval for a project before proceeding to call for detailed proposals. The call for detailed proposals should specify the approved project definition and environmental approval conditions. Any variations to the project proposed by a private party must then be approved under the *Environmental Planning and Assessment Act 1979* before implementation. The private party would normally bear the contractual risk and responsibility. The Guidelines identified this as the preferred scenario.
- In the second scenario, more likely when maximum scope for innovation is required, the preferred proponent is selected before the project is defined in detail. A two stage assessment process is then required. In the first stage the sponsoring agency should undertake a preliminary assessment of environmental constraints and opportunities likely to influence the development of preferred options. The agency should then include the identified planning and environmental parameters in the call for detailed proposals. The second stage commences after contractual agreement, which is made subject to environmental approval. It is preferable for the approval to remain the responsibility of the agency, and the sharing of risks and costs relating to the attainment of approval and compliance with any conditions must be detailed in the contract.³⁴

The Government believes that the private provision of public infrastructure has the potential to offer enhanced value for money compared to conventional approaches, for the following reasons:

- The integration of design, construction, operation and maintenance over the life of an asset, within a single project finance package, can encourage maximum innovation from the private sector to improve the design and performance of the infrastructure and reduce its whole of life costs;
- Transferring risks to the private sector, where it is better placed than government to manage those risks, can further improve the cost and quality of infrastructure. It has been acknowledged that in early experience with privately financed projects, the temptation was for maximum transfer of risk, and inevitably risks were sometimes transferred that ultimately came back to government. The focus has now shifted to 'optimum' risk transfer;
- Appropriate third party usage of facilities, either concurrently or 'out of hours', can reduce the net cost of the facility to the government. In many places, the private

³³ Sydney Water Inquiry, *Final Report Volume 2*, December 1998, at 290.

³⁴ NSW Government, *Working with Government, Guidelines for Privately Financed Projects*, November 2001, at 17.

sector is better placed than the government to manage third party usage.³⁵

In February 1994 the NSW Parliament Public Accounts Committee, in a report on Infrastructure Management and Financing, identified the following problem: “NSW needs private finance for infrastructure, but is not attracting or using it effectively enough.”³⁶ Some ten years later, the same criticism has emerged, with comments that the PFP government policy has effectively stalled through bureaucratic red tape and union opposition.³⁷ For instance, Tim Boyle, general manager of infrastructure at Sinclair Knight Merz, has noted that whilst the Government has done much of the groundwork, it needs to make better use of the engineering, asset maintenance and construction expertise in the State: “The project flow has been slow, ... Clearly, NSW is lagging behind Victoria, but is ahead of the rest of the country. Victoria has already applied PPPs to projects in health and transport infrastructure. These are areas of pressing need in NSW.” However, the *Australian Financial Review* reports that the consensus in the industry is that NSW has led the way in the use of private involvement in privately funding tollway projects.³⁸

In response to concerns that the Government has been too slow to sign off PPP infrastructure projects, it was reported that the NSW Treasury Secretary John Pierce, Department of Commerce director-general Kate McKenzie, and Department of Infrastructure, Planning and Natural Resources Director-General Jennifer Westacott, have provided institutions with briefings on Government policy and operation. In addition, a taskforce headed by David Richmond is reviewing privately financed projects.³⁹

However, the union movement in particular has been very critical of the emergence of PPPs, with ACTU head Sharan Burrow calling for greater transparency in infrastructure financing. Ms Burrow also called for the use of national development bonds to fund infrastructure projects rather than private sector financing.⁴⁰ Dr Christopher Sheil, writing in a union journal, claimed that:

- PPPs are all about privatisation – there is no reason why state government can be reduced to the point where they own nothing, and their sole direct tasks will be

³⁵ NSW Treasury, Office of Financial Management, *Private Provision of Public Infrastructure and Services*, Research and Information Paper, April 2002, at 2.

³⁶ NSW Parliament Public Accounts Committee, *Infrastructure Management and Financing in New South Wales. Volume 2: Public – Private Partnerships – Risk and Return in Infrastructure Financing*, Report No 80, February 1994, at 25.

³⁷ For example, see the speech by John Brogden MP, Leader of the Opposition, “Meeting Infrastructure Challenges in the 21st Century: A Vision for NSW.” Address to the Australian Council for Infrastructure Development, 3 May 2002.

³⁸ “Politicians seek mileage from PPP debate.” In *The Australian Financial Review*, 7 August 2003.

³⁹ “NSW acts on PPPs.” In *The Australian Financial Review*, 11 July 2003.

⁴⁰ “Burrow: rethink PPP push.” In *The Australian Financial Review*, 16 August 2003.

‘teaching children and tending the sick.’

- The term ‘partnerships’ is a misnomer, as the policies amount to nothing more than conventional principal – agent relationships;
- The cost of raising capital for the private sector is up to four times more expensive than traditional government financing. This means that the only way PPPs can be profitable to private firms is if: the service quality is dramatically reduced; the taxpayer gets ‘severely gouged’; or large scale efficiencies can be found. Service quality deterioration is the most likely result.
- The idea that substantive risk transfer occurs in a PPP project is ‘a joke’ – many projects have guaranteed government revenue for 25 – 30 years.⁴¹

7.0 PUBLIC PRIVATE PARTNERSHIP POLICIES IN OTHER AUSTRALIAN STATES

Victoria

Victoria was the first state to release a Public Private Partnership policy, *Partnerships Victoria*, in June 2000. The policy is generally described as the benchmark against which other state policies are measured, and has as its emphasis the maximisation of infrastructure spending through the use of public and private resources. Projects with a total contract value of \$10 million or more are considered. NSW has aimed to be as consistent as possible with *Partnerships Victoria*. The flagship PPP project for the Victorian Government has been the redevelopment of Spencer Street Station.

Queensland

Queensland released its *Public Private Partnerships* policy in late 2001 and released detailed guidance documents in August 2002. Again, the guidance documents rely heavily on the *Partnerships Victoria* material. The policy applies to projects where the present value of the project exceeds \$50 million. The policy places an emphasis on industry development, investment, recruitment and skill development and transfer, in addition to maximising investment in infrastructure. The lead agency is the Department of State Development (Infrastructure Partnership Taskforce). The redevelopment of the SouthBank Education and Training Precinct is the first project under the Queensland PPP policy framework, with expressions of interest called in early 2003. Recently the Queensland Government announced that a PPP business case was to be developed for a billion dollar duplication of the Gateway Bridge and Motorway. Four other projects are in what is called Business Case Development and another nine are in Preliminary Assessment stages. These projects cover infrastructure initiatives for: roads; public transport; buildings and facilities; information and communication technology; knowledge management; port facilities; and water supply and wastewater management.⁴²

⁴¹ Shiel, C. “PPPs – privatization by stealth.” In *Community and Public Sector Union website*, 29 August 2002. see http://cpsu-spsf.asn.au/public_interest/3/57.html. Accessed 11 December 2003.

⁴² Drabsch, S. “The Australian Outlook – Project Opportunities and Challenges Negotiation.” In *National Public Private Partnerships Summit, Creating and Maintaining Profitable Partnerships*, 26-27 June 2003, Melbourne.

Western Australia

Western Australia released its PPP policy, *Partnerships for Growth*, in December 2002. The policy has an emphasis on social infrastructure, and Western Australia has had previous experience in the provision of PPP type projects particularly in the hospital / health care area. The Department of Treasury and Finance is the responsible government department. No minimum project value amount has been specified to be eligible as a PPP.

South Australia

A PPP unit in the South Australian Treasury was established in November 2000, and the policy *Partnerships SA* was released in mid 2002. It has an emphasis on social infrastructure and information technology projects. Several PPP projects have been announced over the last few years, including: the upgrading of the Glenelg transport corridor and the procurement of new trams; a new regional hospital in the Barossa; and a new women's prison. No minimum project value amount has been specified to be eligible as a PPP.

Tasmania

Tasmania released its private investment in infrastructure policy in July 2000. However, the number of projects delivered using private finance has been limited, with the exception of some hospitals, including the North West (Burnie) General Hospital and the Mersey Community Hospital.⁴³

8.0 CONCLUSION

Clearly the provision of infrastructure involves large amounts of money, and can have ramifications over several generations. The private sector is keen to increase its participation in the field, with several private infrastructure funds established over the last 12 months.⁴⁴ One area that does appear to need attention is the development of policy and guidelines for public private partnerships in local government. This is important as local government is the main provider of services (such as water and waste water) in many parts of the State. Furthermore, as councils are limited in their revenue raising capabilities, they are increasingly likely to look to alternative financing and infrastructure provision models in order to fund infrastructure. As Engineers Australia noted in relation to both potable and waste water, 80 percent of non-metropolitan urban utilities have 'a complete lack of expenditure on rehabilitating or renewing aged infrastructure.'⁴⁵

While the NSW Government believes that the private provision of public infrastructure has the potential to offer enhanced value for money compared to conventional approaches, some in the community reject the use of private financing for infrastructure. Noting the

⁴³ This section compiled from various sources, including policy documents and: The Allen Consulting Group, *Funding Urban Public Infrastructure, Approaches Compared*. Report for the Property Council of Australia, August 2003 at 42; Australian Council for Infrastructure Development, *Public Private Partnerships – A Brief Summary*, ND.

⁴⁴ "MacBank to launch PPP fund." In *The Australian Financial Review*, 1 July 2003.

⁴⁵ See section 2.1 – The NSW Infrastructure Report Card.

historical low debt levels of the Commonwealth and State Governments, there have been calls for infrastructure to be funded through the traditional method of government debt. The union movement has called for the issue of national and state development bonds to fund infrastructure. It is claimed that these bonds, suggested to be priced at 0.25 percent above the long term bond rate, and available to both institutions and ‘mums and dads’, would provide a vehicle for infrastructure financing and return the responsibility for infrastructure provision back to government.⁴⁶

⁴⁶ Burrow, S. “Infrastructure and Australia’s mixed economy.” See the Evatt Foundation website: <http://evatt.labor.net.au/publications/papers/47.html>.