



Australian Government

Infrastructure Australia

DISCUSSION PAPER 2: PUBLIC PRIVATE PARTNERSHIPS

The issues in this paper are based on discussions between Infrastructure Australia and PPP stakeholders, and through Infrastructure Australia's research.

The issues discussed in this paper do not represent the views of the Government or Infrastructure Australia, but instead seek to raise relevant questions and invite feedback from interested members of the community.

1. Introduction

Infrastructure Australia

Infrastructure Australia is a statutory advisory council with twelve members drawn from industry and Commonwealth and State Governments. Infrastructure Australia is supported by an Infrastructure Coordinator within the Australian Government's Infrastructure, Transport, Regional Development and Local Government portfolio.

Infrastructure Australia provides advice to governments, investors and owners of infrastructure on the following:

- Australia's current and future needs and priorities relating to nationally significant infrastructure.
- Policy, pricing and regulatory issues that may impact on the utilisation of infrastructure.
- Impediments to the efficient utilisation of national infrastructure networks.
- Options and reforms, including regulatory reforms, to make the utilisation of national infrastructure networks more efficient.
- The needs of users of infrastructure.
- Mechanisms for financing investment in infrastructure.

Infrastructure Australia's immediate tasks are to:

- Conduct an audit to determine the adequacy, capacity and condition of nationally significant water, transport, energy, and communications infrastructure.
- Produce an Infrastructure Priority List.
- Produce best practice, nationally consistent guidelines for Public Private Partnerships.

Infrastructure Australia is also in a position to provide advice on the harmonisation of policies, and laws, relating to development of, utilisation of, and investment in, infrastructure. Infrastructure Australia will also advise on the allocation of the Australian Government's Building Australia Fund. Infrastructure Australia's focus is on issues of significance to **national** productivity.

Purpose of this Discussion Paper

One of the goals of Infrastructure Australia is to facilitate public discussion on how the nation could improve planning and investment in infrastructure to meet our future needs, as well as improving the way we use the infrastructure already in place.

During the early phases of Infrastructure Australia's activities, it became clear that members of the community, including people working in Industry and Government, have both ideas and information potentially of great value to the work being undertaken.

This discussion paper aims to prompt input regarding how Public Private Partnerships (PPPs) could be used to optimise investment in public infrastructure and how the policies and processes for considering PPPs as an investment option and for implementing PPPs, could be improved.

Submissions Process

Submissions should be evidence-based, no more than 15 pages, and received by 15 October 2008. Submissions are to be sent to mail@infrastructureaustralia.gov.au with "Submission" in the subject field. Although email is preferred, submissions may be lodged via post and should be addressed to:

The Infrastructure Coordinator
Infrastructure Australia
GPO Box 594
CANBERRA ACT 2601
AUSTRALIA

All submissions will be treated as documents for the public domain unless clearly requested otherwise by the submitter. If you do not wish your submission to be made public, please clearly mark "Confidential" on the front page of the submission and tick the relevant Confidentiality box on the cover sheet. Commercial in Confidence unsolicited proposals should be marked as such and will be considered by the Infrastructure Coordinator directly. The cover sheet, this discussion paper, and information about how to prepare and lodge a submission are available at www.infrastructureaustralia.gov.au.

2. Context

Australia has a long and successful history of economic development and growth. It has a high quality of life by world standards, enjoying stability and relative security, making it one of the best places to live, work and raise a family.

In the future, Australia wants to continuously improve the living standards and quality of life of current and future generations by achieving sustainable economic growth, protecting the environment, and providing opportunity and fairness for our most disadvantaged.

Our national infrastructure—the roads, rail, ports, airports, pipes, grids, cables and communication networks that criss-cross Australia—is the platform for future growth and prosperity. To build a modern, dynamic economy, Australia needs world-class infrastructure, both through finding ways to better use its infrastructure and to identify opportunities for new capital investment.

It should be noted that this paper does not cover the identification of infrastructure gaps or prioritisation of infrastructure investment in Australia. A separate paper has been prepared to prompt discussion on these topics and is available from: www.infrastructureaustralia.gov.au.

3. Issues for discussion

What are PPPs?

PPPs are contracts for private sector provision of public infrastructure and related services that would otherwise be provided by the Government. PPPs generally involve private sector design, construction, financing, ownership, operation and maintenance of public infrastructure and the provision of related services.

Typical PPPs include toll roads, heavy and light rail systems, hospitals, schools and water treatment plants. In the case of PPPs for schools and hospitals, the private sector usually provides the infrastructure and non-core services, but the Government provides the core services of teaching and health care. In these types of PPPs, the Government pays the private sector party for the services rendered. In other PPPs, such as toll roads, the Government plays no active role in the provision of services. In these types of PPPs, consumers pay the private sector party for the services rendered.

PPP contracts are usually for long periods (e.g. 15–30 years) after which the infrastructure is transferred back to public ownership. In some circumstances, the private sector owns the infrastructure outright.

Why are PPPs important?

PPPs are a key element in meeting the Australian Government's commitment to developing Australia's productive capacity and modernising key infrastructure.

Infrastructure demands are a key challenge for governments around the world. Investment in infrastructure is critical to drive economic growth and improve services to the community. The need to move quickly to bridge critical public infrastructure gaps and the potential that PPPs offer in accelerating the introduction of infrastructure makes consideration of PPPs a priority policy issue

PPPs are a proven infrastructure procurement method. Governments across Australia are increasingly using PPPs to deliver value for money to the community. PPPs offer value for money through optimising risk allocation and encouraging innovation, greater asset utilisation and integrated whole-of-life management.

What are the problems?

Infrastructure Australia is seeking to identify those aspects of PPP-related policy and processes that may hinder the achievement of Australia's economic, social, and environmental goals. Those aspects could include, but are not limited to, PPPs not being considered widely enough, inconsistent PPP processes across the Commonwealth, State and Territories, low levels of interest from overseas bidders, PPP processes that involve unnecessary complexity, time and cost.

Initial stakeholder engagement activities have provided indications of where some of the problems lie with PPP policy and processes. A greater level of detail on the problems will help identify how to take targeted and effective action. Infrastructure Australia wants to know

about things that restrict the effectiveness of PPP policy and processes, but is also interested in related social, environmental and other issues.

What are the impacts of these problems?

In order to put things in perspective, it is important to understand the costs and other impacts of the problems affecting PPPs. Infrastructure Australia is, therefore, seeking objective and quantified assessments of the impacts of the problems, because it will help with the identification and prioritisation of solutions.

How did these problems come about?

An understanding of the causes of problems for PPPs is necessary for effective and targeted solutions to be developed. This includes both the immediate and the underlying causes. For example, a process that takes a long time will likely impose higher costs than a shorter process. However, we want to identify what specific factors may be driving the length of the process in the first place (e.g. bidders needing time to understand the project and develop the best solutions, secure finance and price risk, clients needing time to evaluate information and secure Government approvals).

Some causes of problems for PPPs might seem, from one perspective, to be an inevitable consequence of the process and, therefore, not worthy of action. However, the benefit of understanding other perspectives is that such assumptions can be challenged and the potential for innovation can be expanded.

There may also be factors outside the PPP process itself that cause problems (e.g. related government policy or regulation, the prevailing cost of capital, overall demand for skills and material, public, union or investor sentiment towards PPPs). Again, some of these causes may seem beyond the scope of PPP policy or processes to deal with. This may be the case, but for reform to be most effective it is necessary to understand all the environmental factors influencing the effectiveness of PPPs, not just the ones that can be easily influenced.

Particularly in the broader policy and regulatory areas, exposing the full range of causes and their impacts will enable an informed debate on the desirability of change in those areas.

How might these problems be addressed?

For any problem, there can be a variety of solutions. When canvassing options it is important to draw from a consideration of not only the problem itself, but also its impacts and underlying causes. Ideas often emerge during the process of exploring the nature, impacts and underlying causes of the problem. Infrastructure Australia is prepared to consider a range of options that address the problems and their impacts but wants to ensure, as much as possible, that the underlying causes of problems are targeted for action.

Given the situation, what should be done first?

Infrastructure Australia wants to move quickly to prioritise and then implement the most promising solutions. The most effective options are likely to resolve the key impacts and deal with the underlying causes in ways that provide the greatest returns and recognise the more difficult constraints. While the options themselves will be valuable, Infrastructure Australia also recognises the potential value of insights emerging from the methods that stakeholders use to identify and prioritise them. Infrastructure Australia expects that these insights will provide another valuable input into its analysis of the problems and their solutions.

4. What next?

Infrastructure Australia will individually acknowledge all submissions after receipt.

Infrastructure Australia and the Council of Australian Governments will consider the most promising options for improving PPP policy and processes for incorporation into the National PPP Policy and Guidelines.

Submissions may also be used to assist with the identification and consideration of Infrastructure Australia's work in the future.

Thank you for taking the time to read this discussion paper.

All submissions in response to this paper should be received by 15th October 2008 either via email at mail@infrastructureaustralia.gov.au or sent to:

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