



## Introduction



### Key Points:

- Various models for privatising infrastructure
  - each have a different risk profile
- Privatising infrastructure shifts risk to the private sector
- Community and media remain suspicious of privatising infrastructure
- Infrastructure provides an asset class for the private sector with a unique risk profile
- Governments across the world have turned to private sector providers to achieve better value for money and improved provision of services
- Australian companies have advanced skills in the environment of privatised infrastructure



## Models used for infrastructure delivery



Increasingly understood by Government and Private Sector

|      | Delivery Method               | Asset Ownership | Operating Risk | Residual Value Risk | Examples   |
|------|-------------------------------|-----------------|----------------|---------------------|--|
| 0%   | Government Provision          | Government      | Government     | Government          | - Libraries<br>- Community Centres   |
|      | Serviced Infrastructure Model | Private Sector  | Government     | Government          | - Courts<br>- Special purpose accommodation  |
|      | BOOT                          | Private Sector  | Private Sector | Government          | - Toll Roads<br>- Water and waste water assets<br>- Prisons and hospitals<br>- Sporting facilities |
| 100% | Privatisation                 | Private Sector  | Private Sector | Private Sector      | - Energy assets<br>- Airports<br>- Ports   |

Legend: ■ Government, ■ Private Sector

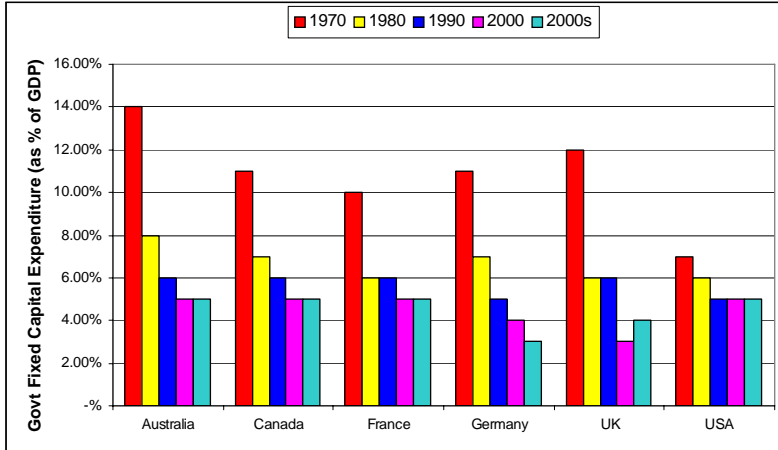


## Why does it make sense for the private sector to provide infrastructure?

- Scarce Government funding
- Excess of private sector funding
- Most efficient allocation of resources and pricing of risk through competitive processes
- Private sector can best manage and mitigate risks:
  - Risk retained by government often carries substantial unvalued cost that is better understood by the private sector
  - BUT some risks may still be best managed by government (for example pre-existing liabilities and sometimes demand risk)



## Global Infrastructure Spending 1970-2004 (Extrapolated)



Source: DataStream



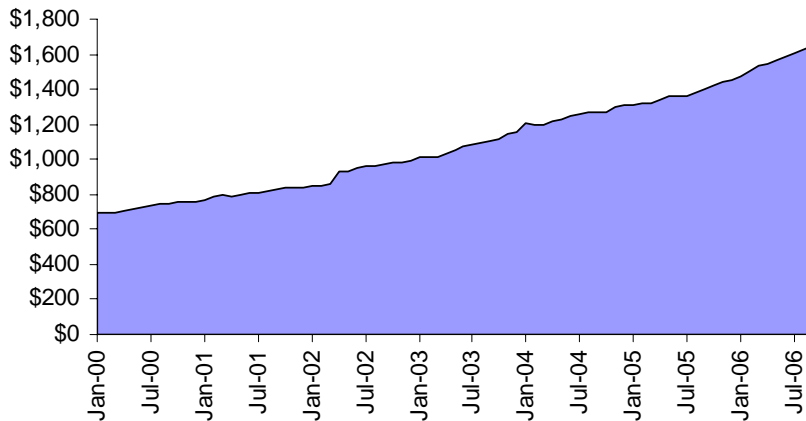
## Growing pool of Australian Capital



### ➤ Sources of Debt:

#### ➤ Indicator – our banks

#### ➤ Australian bank assets as at September 2006 - \$1,648 billion



Source: RBA



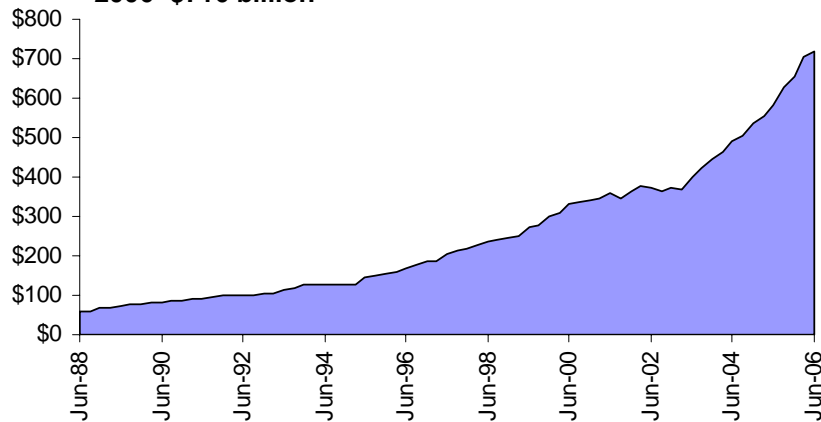
## Growing pool of Australian Capital



### ➤ Sources of equity:

#### ➤ Indicator – our superannuation funds

#### ➤ Superannuation fund assets (outside life offices) as at June 2006 - \$716 billion



Source: RBA



## The community remains suspicious of privatisations



### **BUT some community perceptions:**

- 70% continue to want the money to come “mostly from Government”
- 66% oppose privatisation
- 51% oppose increased role of private sector
- Acceptability varies according to function



## The community remains suspicious of privatisations



### **Negative perception of private sector involvement is despite private sector efficiencies**

#### **Current Environment**

- Perception issues and ill-informed views are a barrier to developing the PPP model
- Community bias against private sector provision - 84% of Australians think companies only consider profits\*
- Intense media and public scrutiny of deals that do not go right eg. Spencer Street Station and Cross City Tunnel compared to successful projects such as the M1, M2, M5 and M7 tollroads

\* Sweeney Research 'Eye on Australia' 2004, 2005: annual Australian wide survey of 500 Australians aged over 18 years, published by BRW



## The community remains suspicious of privatisations



### **Growing evidence suggests that the private sector can play an important part in the efficient provision of infrastructure**

#### **Addressing Concerns**

- The private sector is more capable than ever of playing this role given the procurement expertise and substantial financing alternatives
- Potential to increase Government and broader community knowledge of the merits of the PPP model
- Publicise the positive feed-back from PPP end-users
- Extensive list of successful projects



# History of Privatisations in Australia



## Pre 1990s - 1993

- Tollroads
- Hospitals
- Water

## 1994 - 1997

- Prisons
- Power
- Sea Ports
- Water

## 1998 - 2000

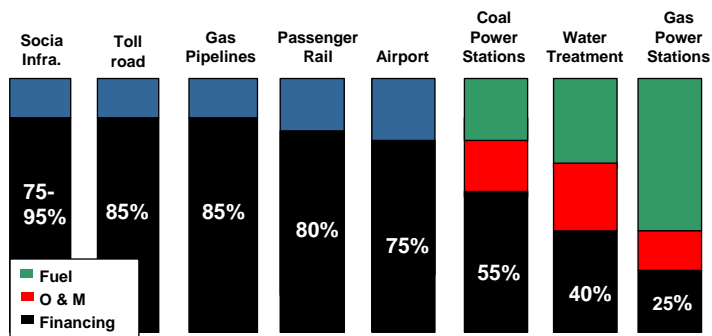
- Airports
- Rail
- Power
- Water

## 2001-2002

- Defence
- Prisons
- Hospitals
- Airports
- Toll Roads
- Sea Ports
- Schools



# Importance of Financing



- Financing component tends to be the largest cost component
- Financial optimisation can add substantial value.



## Keys to positive public perception:

- Appropriate risk transfer/sharing
- Clear performance obligations
- Good communication with the public



## Conclusion



- Numerous identifiable projects
- High level and constantly increasing expertise in private and public sectors
- Market liquid – extensive funding available for privatising infrastructure
- But needs greater public acceptance