



# Observations on three emerging developments

## Recent policy developments and key issues in Australia's PPPs

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A G20 INITIATIVE



# About the Global Infrastructure Hub



**1**

**G20 - backed initiative**

**2**

**Focused on 'bankable' infrastructure projects in all markets**

**3**

**Aim to lift global economic growth**

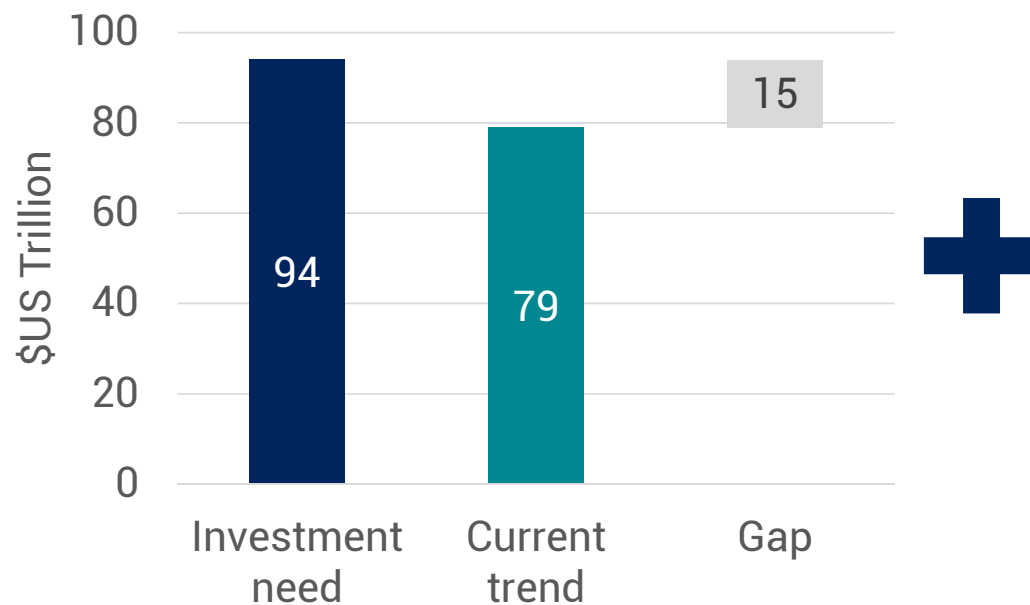
**4**

**Impartial and open-source data**



# Large and growing infrastructure needs in Asia, lower public capacity to finance and fund that infrastructure

GI Hub forecasts of Global Infrastructure Investment 2016 – 2040 (public and private)



Source: GI Hub

Forecast of Korean Government expenditure

	2018	2020
<b>Debt to GDP</b>	39.5%	41.6%
<b>Fiscal balance (% of GDP)</b>	-1.6%	-2.9%

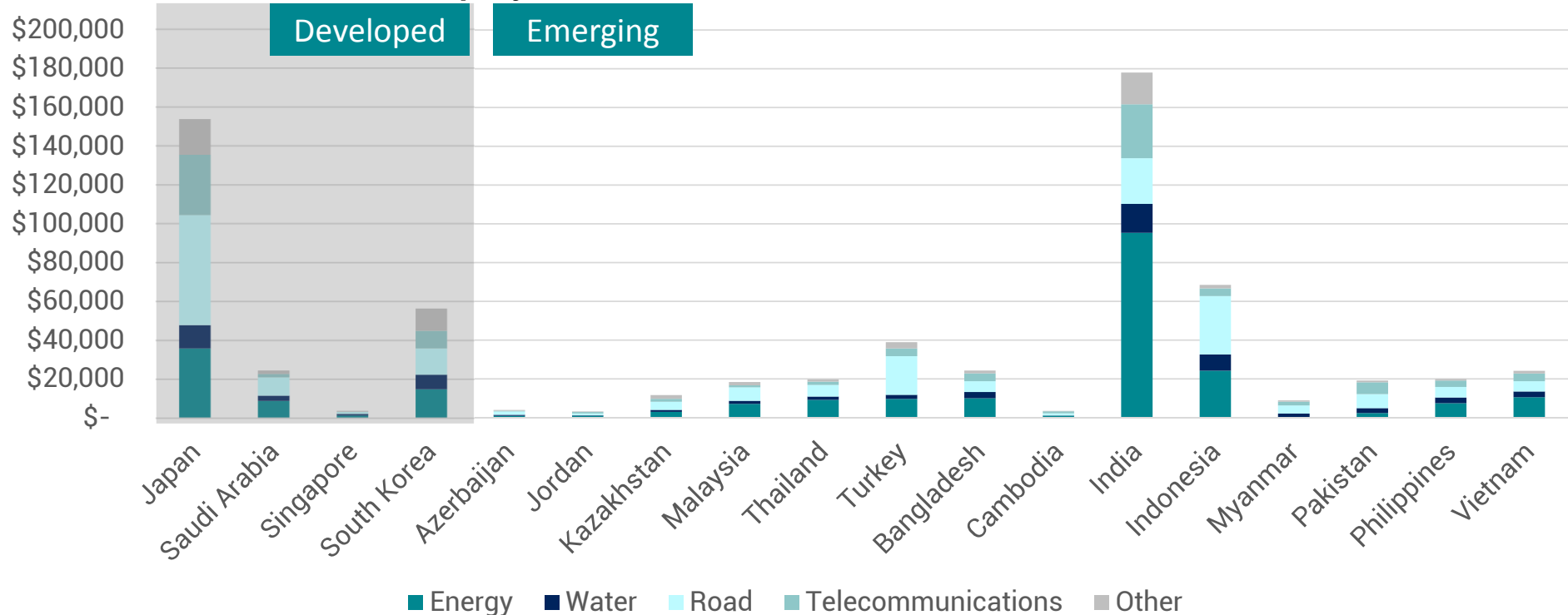
Source: Republic of Korea, Ministry of Economy and Finance



# Significant investment needs, largest in Energy and Roads

- China – annual need of \$US 1.1 trn, primarily roads (\$US 403bn) and energy (\$US 373bn)

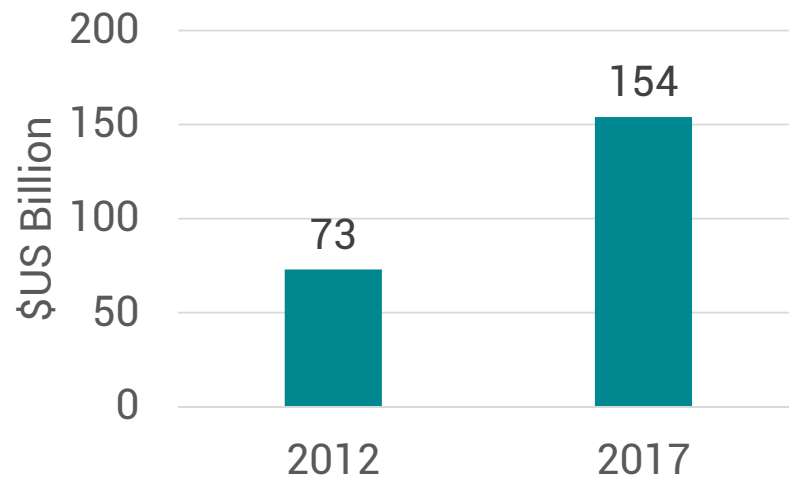
\$USD millions investment need per year





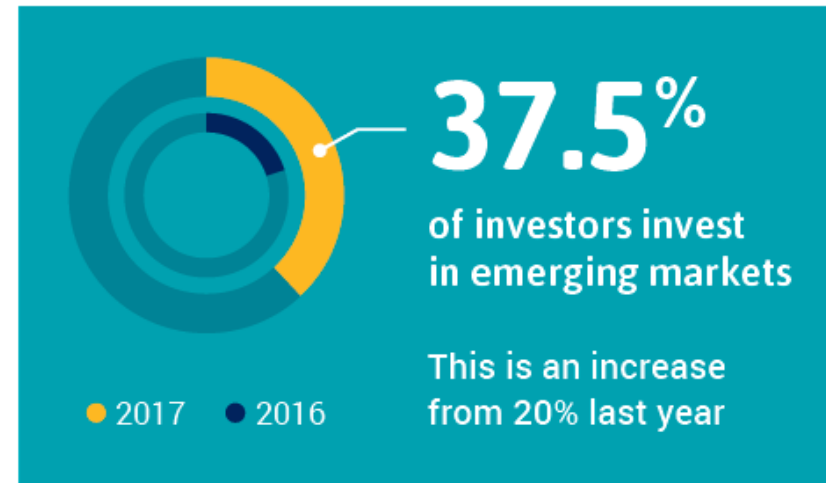
# Increasing available private capital, interested in emerging markets

## Growing accumulation of uninvested institutional capital



Source: Preqin

## Growing interest in emerging markets



- certain types of infrastructure projects in emerging markets may offer long-term cash flows with attractive yields

Source: GI Hub, EDHEC

# Observations on three emerging developments in Australian PPPs



1 Economic regulation of PPP infrastructure

2 Asset recycling

3 Further refinements to unsolicited proposals



# What is Economic Regulation, and relevance to PPPs?

## Different approach to a similar problem

	<b>Economic Regulation</b>	<b>PPP</b>
Framework	Regulatory or legal framework	Long-term contract
Implementation agency	Independent expert regulator	Government contract manager
Period of contract	Usually rolling 5-year periods	Whole of contract – 20 to 25 yrs
Efficiency mechanism	Periodic reviews against benchmark, incentive mechanism	Initial tender
Necessity of clear risk allocation	Low	High
Management of uncertainty	Negotiate with regulator	Dispute resolution/courts



## Economic Regulation vs. long-term PPP contract?

### Economic Regulation suit:

- Direct user charging
- Likely to need ongoing investments
- Likely uncertain operating environment

### PPP Contracts suit:

- Large well-defined once-off investments
- Produces services easily monitored
- Majority of benefits from tender
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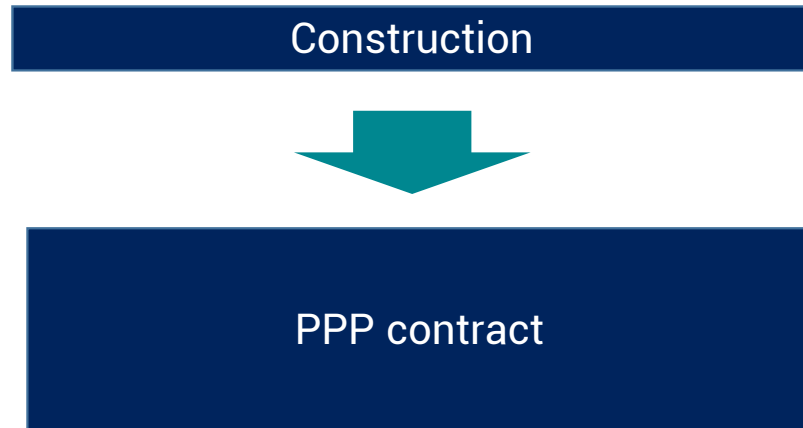
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**Hybrid approach?**



## Combining both into one procurement



- More efficient to manage construction risk through contract
- Well defined future



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- More efficient to manage construction risk through contract
- Well defined future

- Regulator better at avoiding 'capture'
- Usually greater transparency
- More efficient management of uncertainty

# Thames Tideway Tunnel – example of Hybrid approach



## Project features

£4.2b tunnel in London to upgrade wastewater networks away from Thames River

Largest private financed infrastructure project in Europe:

- Urgent need
- Significant construction risk
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## Key features of project structure

- Project developed as PPP, bidders bid on return on capital (WACC)
- Receive Bid WACC during construction
- Transition to regulatory pricing during operation
- Thames Water, water operator, collects tariffs and pass to project company

<https://www.gihub.org/resources/showcase-projects/thames-tideway-tunnel/>

## Key requirement to apply regulation



Competent, independent, expert  
regulators and staff

# Asset recycling policy in Australia



\$6.0b 5 yr Federal Government funds for eligible growth infrastructure projects

Federal Government contributes 15% of asset transaction value if spent on eligible new infrastructure

Criteria includes:

- net positive benefit
- enhance the long-term productivity
- Involves private sector where possible

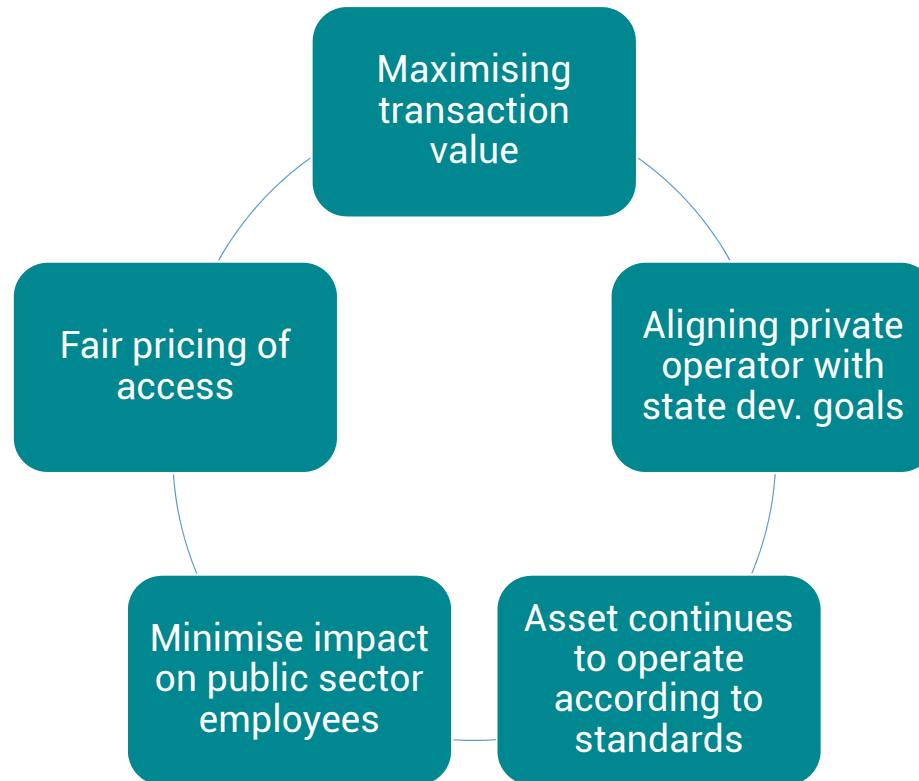
# Long-term lease of the Ports of Botany, Kembla and Newcastle



- Funds primarily diverted to RestartNSW, a special fund to pay for the Government's long-term infrastructure plan

Port Botany	Port Kembla	Port of Newcastle
<p>Major container and bulk liquids port</p> <ul style="list-style-type: none"> <li>• 2<sup>nd</sup> largest in Australia</li> <li>• Only LPG import facility in NSW</li> </ul>	<p>Major vehicle &amp; bulk trade port</p> <ul style="list-style-type: none"> <li>• Largest vehicle import hub</li> <li>• Largest export grain terminal</li> <li>• Second largest coal export port in NSW</li> </ul>	<p>World's largest coal export port</p> <ul style="list-style-type: none"> <li>• Top 10 world's largest bulk export port</li> <li>• ~95% trade is high quality black coal, revenue contracted</li> </ul>

# Numerous, at times competing, interests needed to be balanced



# Examples of issues, and how they were addressed



ISSUE	HOW ADDRESSED
Cap on trade throughput at Port Botany affected value	Following wide consultation & management of interest groups, cap lifted through legislation controlled by modified planning regime.
How to appropriately regulate prices to control market power	New approach is “light handed” price monitoring regulation by Govt, with an ability to refer to independent regulator for review.
Ensuring port safety and state regulatory functions continue	Assets split into “Private Co” and “State Co” pre-final bids, defined and structurally separated for clarity on what is transacted. Private Co had to be right-sized, State Co mostly retained safety and regulatory functions
Environmental liabilities	Highly detailed environmental report completed as part of DD. Govt decided early which environmental risks it would retain and which it would transfer.
Construction liabilities	Legal disputes over construction work during Government ownership “carved out” of transaction

# Careful, well-considered, balanced, deliberate work delivered the funds to deliver infrastructure promise



## Outcome

### Port Botany & Port Kembla

\$AU 5.07bn sale price, ~ 25x EBITDA to consortium comprising



### Port of Newcastle

\$AU 1.75bn sale price, ~27x EBITDA to consortium comprising



Supports financing of



## Western Sydney Infrastructure Plan

+ many others

# Unsolicited proposals – A long history in Australia



- Application from late 80's to early 90's
  - NSW first PPP & USP – Sydney Harbour Tunnel
- **117** proposals received in NSW in last 5 yrs
- Examples of successful projects include





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## Westgate tunnel





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**Westgate tunnel**



**Brisbane Int'l Cruise Terminal**





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## Westgate tunnel



## Brisbane Int'l Cruise Terminal



## NorthConnex





## First major implementation challenge - Uniqueness

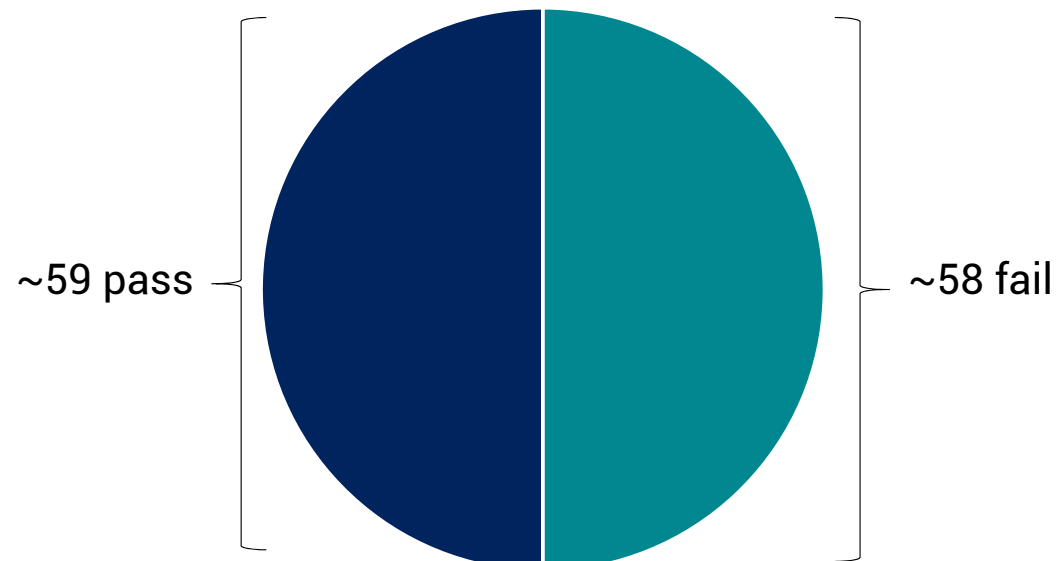
- Critical criteria to assess USPs, **but what is unique?**



## First major implementation challenge - Uniqueness

- Critical criteria to assess USPs, **but what is unique?**

### Total number of USPs in NSW passing uniqueness criteria last 5 years



Source: Coors Chambers Westgarth lawyers

# Second major implementation challenge – Value for Money



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## Unsolicited proposals could be worse for taxpayers, ACCC warns



- Achieving VfM is more difficult for USPs
- Several options available:
  - Swiss challenge
  - Development fee compensation
  - Open book

# Recent improvements to Victorian guidelines address issues



1

Pre-submission meeting is mandatory

2

Additional uniqueness testing

3

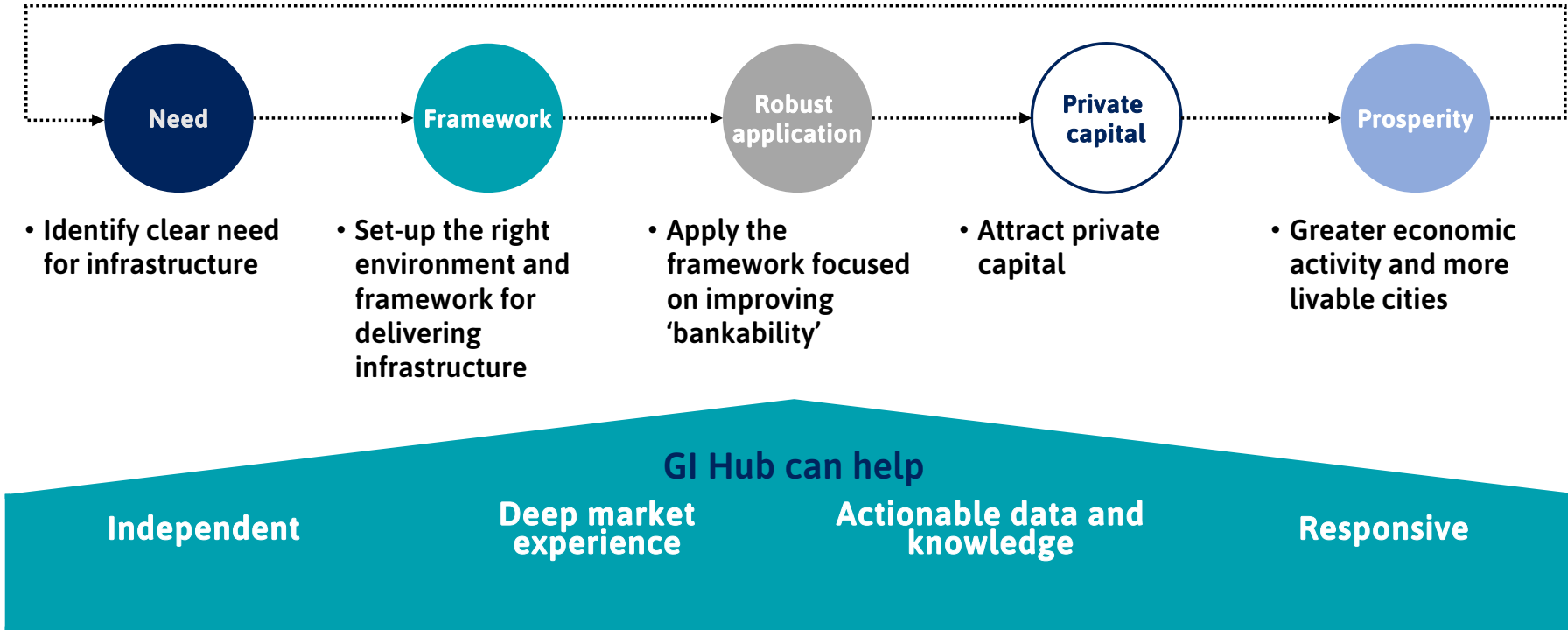
Government's priority areas of USP

4

Funding for innovative ideas

<https://www.dtf.vic.gov.au/infrastructure-investment/market-led-proposals>

# Well-thought out infrastructure provides a cycle of prosperity





# Thank you

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