

1 February 2014

Mr Peter Harris
Chairman
Public Infrastructure Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

email: infrastructure@pc.gov.au

Dear Chairman

Public Infrastructure Issues Paper

AMP Capital Submission – Additional Comments to “A revised model of economic infrastructure development, designed to attract higher levels of private sector investment”

Further to our submission of 14 January, we would like to take the opportunity to provide some additional comments on the potential scope of application of this model.

The primary objective is to increase private sector investment in green field economic infrastructure. In essence, the model provides a mechanism where the cost of providing the infrastructure can be recovered from the economic stimulus it creates. Some forms of economic infrastructure, such as ports and airports, directly create cash flows sufficient to service financing costs. However, many transport projects, such as the upgrading of interstate highways, are not suitable candidates for direct tolls and do not directly generate cash flows. Other forms of infrastructure with both high economic and social benefits, such as mass transit systems, may generate significant cash flows but these will rarely be adequate to fully service financing costs. Such projects could be considered as partially tolled.

For these reasons, private sector financing has found only limited application in these types of projects in Australia. In contrast, the United Kingdom (UK) has developed many major roads, which are analogous to our interstate highways, under a “shadow tolling” regime. In this approach, the UK government makes payments to the owners based on patronage levels. The UK has relatively few overtly tolled roads. This may largely be due to the UK government being both the developer and major economic beneficiary of these roads. That is, they don’t need to directly toll the roads to access the economic benefits. In Australia major roads are largely developed by state governments who have limited direct access to the economic benefits that result from a road development. Consequently, they have been forced to put a greater reliance on direct tolls, where possible. In this regard, the emergence of directly tolled roads in Australia may be viewed as largely an artefact of our form of federalism.

The Victorian M11 Peninsular Link is a rare example of an un-tolled Australian road developed and operated by the private sector. In this case, the Victorian State government makes availability type payments to the owners, meaning that the owners are not exposed to patronage risk. As pointed out in our submission, the ability of state governments to develop further projects using this arrangement is severely constrained by their limited access to tax receipts.

The model we propose would work equally as well for un-tolled and partially tolled projects as for directly tolled projects. It is more flexible than either the UK shadow toll arrangement or the Victorian availability payment approach, as:

- Government would pay the developer a variable rate shadow toll, based on actual traffic volumes, sufficient to meet the tendered return profile for a defined period after

commissioning. It therefore, overcomes a criticism of the UK shadow toll mechanism that the private sector developer stands to make windfall profits as traffic volumes grow.

- It allows the level of patronage risk transfer between the public and private sectors to be set by the market at the time of tendering. Hence, while it relies on a degree of government support to make private sector involvement viable, it ensures that this level of support is no more than it need be.
- The maximum level of support would be established under the same principles as outlined in our previous submission.
- The developer could subsequently sell these cash flows with their associated operating and future volume risks into secondary markets in the same manner as outlined in our submission.

As we demonstrate in our submission, the federal government has the most to gain from the development of economic infrastructure. Consequently, we believe the federal government should be the principal source of any necessary supporting payments to ensure private sector involvement in un-tolled projects.

We believe that this approach could significantly expand the scope of private sector financing into areas such as major highways and mass transit systems in Australia, while at the same time providing some relief for state budgets.

AMP Capital would welcome the opportunity to discuss any aspect of these comments should this be of assistance.

Yours sincerely

Greg Maclean
Global Head of Research, Infrastructure
AMP Capital