

Current infrastructure challenges and initiatives

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CEDA, Melbourne, 23 June 2009

Agenda

- + Nation building projects and the stimulus package
- + PPPs and the challenges from the GFC
 - Impacts on the PPP model
 - Why PPPs will continue

Nation building projects (Australian Government)

+ Building Australia Fund

- \$3.3 billion allocated for Victorian Nation building projects
 - Regional Rail Link
 - Melbourne Metro Rail Tunnel
- Future Nation building projects in Victoria (selected by Infrastructure Australia)
 - Peninsula Link
 - Green Triangle Road and Rail Package
 - Donnybrook/Beveridge Interstate Freight Terminal
 - Port of Hastings Development
 - Port of Melbourne International Freight Terminal
 - Melton Rail Upgrade

+ Health and Hospitals Fund

- Parkville Comprehensive Cancer Centre (\$426 million)

Regional Rail Link

- + 40 km dual track link from West Werribee to Southern Cross Station
- + Biggest State rail network expansion since City Loop
- + Will separate regional and metropolitan train services
- + Significantly increase capacity and reliability for western suburbs

Parkville Comprehensive Cancer Centre

- + \$1 billion world-class cancer centre that includes integrated research / training facilities and a clinical trials unit
- + The new facilities provide for a significant increase in cancer clinical activity
- + What the Centre will deliver
 - Reduced burden of cancer
 - Create a world-class centre of excellence in cancer
 - Increase the investment in biomedical research

Stimulus package

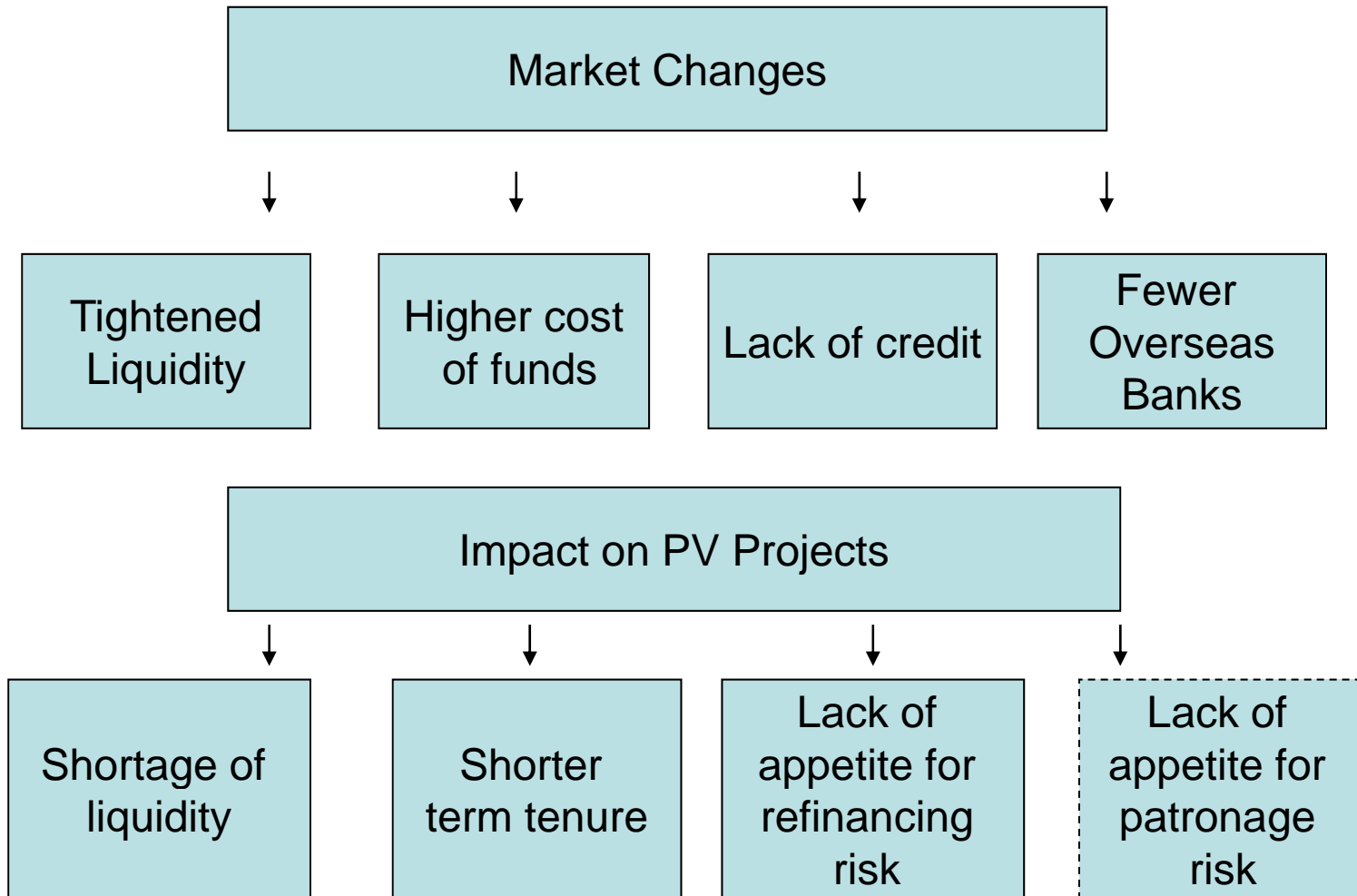
+ \$42 billion Economic Stimulus Plan (Feb 2009)

- Primary schools for the 21st century
 - \$2 billion to be spent on all Victorian government primary schools
 - For construction incl. new libraries, multi-purpose halls, classrooms and refurbishment
- Social housing
 - \$1.5 billion to construct/acquire 5,000 new dwellings
 - Dwellings to be a mixture of public housing built by Office of Housing and dwellings acquired through not-for-profit Housing Associations

Victorian PPP projects

- + There are 18 *Partnerships Victoria* projects in existence worth around \$6 billion capital investment.
 - Examples: Biosciences Research Centre, EastLink, New Schools, Royal Children's Hospital, Water treatment plants, telecommunications
- + There are a further three projects worth around \$4 billion in the market.
 - Victorian Desalination Project (>\$3 billion)
 - Ararat Prison
 - Peninsula Link
- + Pipeline including social, VTP road and rail projects
 - Linked with Commonwealth Nation Building Funds

Challenges to PPP Projects from the GFC



Impact on PPP Model

- + Victorian remains committed to the PPP model
 - Key issue is not underlying risk allocations
- + Two main challenges for Govt:
 - Liquidity shortage
 - Difficult for large projects
 - Transient issue with short term policy response
 - Treasury is considering a range of options on a case-by-case basis:
 - Project tendering changes
 - Direct Govt support

Impact on PPP Model (2)

- Transfer of toll revenue risk
 - Issue prior to GFC
 - Govt to look at sharing risk
 - Toll or not to toll? - availability payments
- + Government will continue to seek value for money – the hallmark of PPP delivery.
 - Whole of life planning and costing
 - Output specification and scope for innovation
 - Risk allocation and commercial arrangements
 - Asset utilisation and third party revenues

PPPs in an illiquid financial environment

- + Good PPPs are still viable in the current market
- + Funding constraints may cap project size
- + Policy responses may be required to ensure finance can be secured, particularly for larger projects
- + We should be mindful not just of the impact of policy responses upon PPP finance, but also of impacts upon traditionally delivered projects:
 - For example, further crowding out of State government borrowings may compromise effective government balance sheet management

Why PPPs will continue

- + PPPs deliver on their value for money promise
- + Savings against the PSC
 - e.g the Royal Children's Hospital achieved a 6.9% saving on a \$1 billion project
- + Enhanced scope and quality
 - e.g. East Link Freeway achieved longer tunnels, additional bypass, additional lanes, enhanced noise walls, lighting, etc.
- + Cost and timing certainty
 - Benchmarking study conducted by Melbourne University for the National PPP Forum
 - Released in December 2008
 - Found that PPPs exhibit superior cost and time certainty during construction than traditional project delivery



+ Visit www.partnerships.vic.gov.au

Infrastructure Australia

+ Visit www.infrastructureaustralia.gov.au