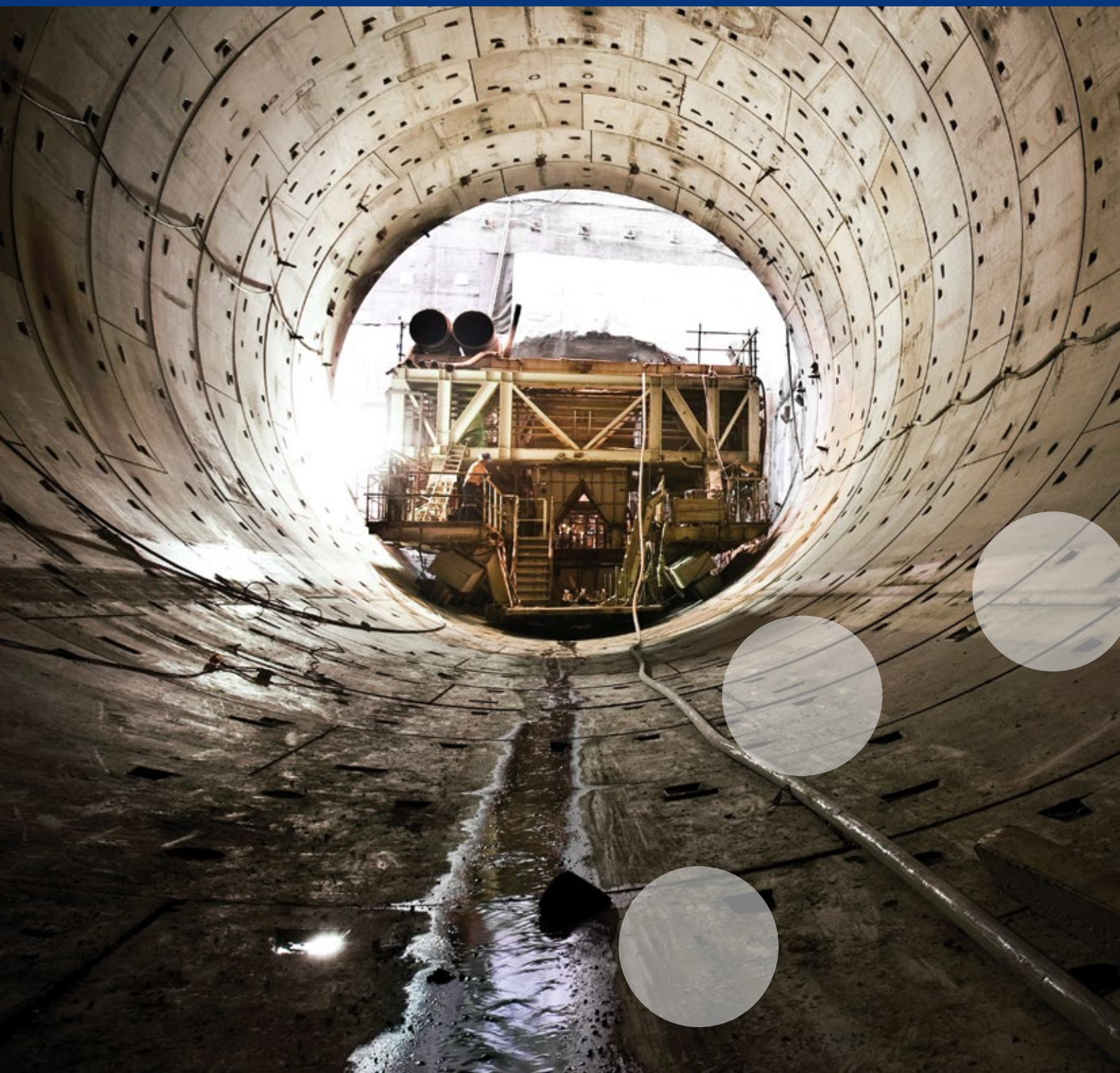
INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

BUILDING AUSTRALIA TOGETHER

Partnerships 2013

INFRASTRUCTURE & INVESTMENT CONFERENCE



CONTENTS

CHAIRMAN'S MESSAGE

"...Partnerships also provides an opportunity for the sector, public and private, to consider immediate projects through the prism of the nation's long-term requirement for efficient infrastructure markets."

I am delighted to welcome you to ***Partnerships 2013***. ***Partnerships*** is an important event, because it marks the annual gathering of leaders from across the national infrastructure sector.

Partnerships provides a unique and respected forum for senior colleagues to explore the challenges facing Australia's infrastructure – and the complex options that exist to resolve them.

Across each of the past eight years, I have been delighted by the depth and generosity of speaker contributions – and the impact that this forum has in setting the policy agenda for the year ahead.

The election of a new national government, with strong infrastructure commitments, will undoubtedly provide an immediate context for the day.

After all, the new government has committed to a substantial acceleration of national investment over the forward estimates.

But ***Partnerships*** also provides an opportunity for the sector, public and private, to consider immediate projects through the prism of the nation's long-term requirement for efficient infrastructure markets.

Today's conference will see a selection of Australia's most respected business leaders, policymakers and professional public servants address a range of sectors and projects; but the uniting theme of ***Partnerships 2013*** is the imperative for change.

I hope that today's proceedings will be of interest and help to illuminate the steps we must take, if we are to leave a national legacy of substantial infrastructure.

Thank you for your ongoing support and engagement with Infrastructure Partnerships Australia – and for your active participation today.

Yours faithfully,

Hon Mark Birrell
Chairman

Department of Treasury and Finance State Government of Victoria

FUTURE DIRECTIONS FOR PUBLIC PRIVATE PARTNERSHIPS (PPPS) IN VICTORIA

FOR MORE INFORMATION PLEASE CONTACT:
Kate O'Sullivan
Assistant Director,
Partnerships Victoria
Department of Treasury and Finance
kate.o'sullivan@dtf.vic.gov.au
Tel: +61 3 9651 0113

In May this year the Victorian Government announced significant reforms to the way public private partnerships (PPPs) are delivered in Victoria.

The reforms ensure that the PPP model continues to be robust and delivers results for the community in light of current market conditions.

The new PPP requirements include:

- expanding the scope of services;
- developing a new streamlined approach for smaller projects;
- identifying efficiencies to reduce bid costs, including a trial to partially pay bid costs in return for intellectual property rights;
- testing value for money using an affordability benchmark for complex projects; and
- considering modified financing structures where there are liquidity concerns or opportunities to maximise value, with preference for Government making a capital contribution to the project.

These reforms are currently taking effect in Victorian PPP projects.

The East West Link Stage One will seek innovative proposals from the private sector to provide a world-class asset and drive value for money, including on design, construction, maintenance and commercial solutions.

It will be procured as an availability PPP with the State retaining the risk associated with traffic volumes and tolling revenue. The State also expects to make a significant contribution to the financing requirement.

The Ravenhall Prison Project, released to the market in June this year includes full custodial services to drive an efficient and integrated service outcome. There will be streamlining of some tender requirements for this project and the Public Sector Comparator will be used as an affordability benchmark.

Capital contributions are being used around the country on PPP projects. The Bendigo Hospital PPP project, contracted

The reforms ensure that the PPP model continues to be robust and delivers results for the community in light of current market conditions.

in May this year successfully applied a capital contribution (75 per cent of private debt). The capital contribution payment is due when the hospital is complete and commissioned, and maintains sufficient private finance at risk to enforce the risk allocation and performance standards.

In regional Victoria, the Bendigo Hospital project is a good example of how PPPs continue to deliver value to the community through innovation.

The project has delivered additional scope over and above the state requirements including a child care centre, serviced apartments for families and visiting staff, a wellness centre, a conference centre, and greater use of technology to facilitate efficient work practices and improved patient amenity.

The reforms are outlined in a revised ***Partnerships Victoria Requirements*** document available at www.partnerships.vic.gov.au

State Government Victoria AUSTRALIA

New South Wales Treasurer and Minister for Industrial Relations, Mike Baird

BALANCING ACT: FUNDING THE BLUEPRINT FOR GROWTH

For those involved in the delivery of public infrastructure, this is a time of great challenges, but also of great opportunities.

When the O'Farrell Government was elected in 2011, we faced a perfect fiscal storm. Revenues were down, spending growth was spiralling out of control, the ratings agencies were circling our triple-A credit rating, and Labor had left us a $30 billion infrastructure backlog.

The first priority was to bring recurrent spending under control. As Infrastructure Australia chairman Sir Rod Eddington wrote in this magazine last year:

"Solving the funding challenge in the medium to long-term will require governments to live within their means and reach positions where they are delivering substantial net operating surpluses each year. After all, this year's surplus is next year's capital investment."

I'm happy to report the spending challenge has been largely met. Every year since 2011, the Budget has delivered a significant turnaround in the face of falling revenue projections: $5.2 billion in 2011-12, almost $5 billion in 2012-13, and $700 million this year. The Budget is expected to reach a surplus position next financial year, but we are not waiting for that to happen before we invest in the critical new infrastructure the people of NSW want and deserve.

We are putting the pedal to the metal.

Central to our strategy is the management and renewal of the state's balance sheet. By moving mature assets off our balance sheet – including the desalination plant, Port Botany and Port Kembla, and electricity generators – we have begun to release the capital we need to invest in new assets. We now have a pool of capital, almost $5 billion, sitting in our dedicated infrastructure fund, Restart NSW.

We have also been determined to get some economic rigour into the choice of projects the Government undertakes. This is why our capital spending priorities have been established by an independent body, Infrastructure NSW. Following INSW's initial report, the Government has committed to building WestConnex, a new 33-kilometre link between Sydney's west with the airport and the Port Botany precinct. The Government's contribution of $1.8 billion has been met entirely from the proceeds of the 99-year leasing of Port Botany and Port Kembla.

As we move into the delivery phase of defining projects such as WestConnex and the North West Rail, the challenge is to continue to be as innovative in the financing as we have been

FOR MORE INFORMATION PLEASE CONTACT:
Office of the Treasurer
office@treasurer.nsw.gov.au
+61 2 9228 5274

in the funding, and to ensure the financial architecture of these projects brings maximum value to taxpayers. Once we have released capital from the balance sheet, how can we maximise this contribution going forward?

The reference financing strategy the Government has selected for WestConnex responds to the fact there are no longer equity or debt markets with an appetite to take on the patronage risk for new tollways. Rather than expect the private sector to take on that risk, at a much higher overall cost of capital, the Government will build Stage 1 of the tollway itself, providing the initial investment that brings the project to the point where revenues from tolling become available.

As that occurs and the tolls are proven up, non-recourse private sector debt will be raised against the revenue stream to help finance subsequent stages of the tollway. By ring-fencing the funding vehicle as a standalone company, we reduce the impact of the debt-raising on the state's balance sheet and credit metrics. Once completed, the state's equity investment in that company is available for sale and the proceeds can be recycled to support further construction.

While this model has not been tried in Australia, it is not unique, and there are international precedents, notably the Bay Area Toll Authority in San Francisco. The power of the model is that the capital that has been deployed does not simply disappear as a grant. Instead, there is a capacity for it to be recycled into more assets, so that at every step of the way there is a win: the state remains within its triple-A metrics, saving billions of dollars over a 10-year period; and we've got projects underway that would otherwise be impossible.

In its 2011 report to the Council of Australian Governments, Infrastructure Australia pointed to a "profound disconnect" in the nation's approach to vital infrastructure. It pointed out that, as a nation, we are reluctant to increase government debt, resent higher taxes, are uncomfortable with the user-pays principle, and are averse to privatisation. Yet we want better roads and public transport, enhanced water and energy security, and speedier telecommunications.

I believe that a key element in getting through this impasse is better cooperation between state and federal governments. Like Barry O'Farrell, who was the first state premier to sign up to the Gonski education reforms, I have worked successfully with federal Labor ministers to achieve good outcomes for NSW. But in the dying days of federal Labor, I became increasingly frustrated at the political games a desperate government was willing to play with infrastructure.

Solving the funding challenge in the medium to long-term will require governments to live within their means and reach positions where they are delivering substantial net operating surpluses each year.

This was never more evident than when the former federal Labor government declared its support for WestConnex, but made it contingent on there being no tolls on any previously existing sections of the route. Such a clause would add billions to the cost of the project, and make it unaffordable. It was irrational, and nothing but a populist measure to curry political favour in western Sydney. If followed it would guarantee the project was never built.

With a new Coalition team in Canberra, I believe the great challenge, and the great opportunity, will be to conduct a rational, grown-up conversation about how we fund and finance the nation's next tranche of productivity-boosting infrastructure.

Ivan Varughese Associate Director, Macquarie Capital

INFRASTRUCTURE IN DEMAND: A SELL-SIDE STORY

Demand for infrastructure assets continues to rise, as demonstrated by recent transactions such as the $5.1 billion Port of Botany privatisation, the $2.0 billion acquisition of the Australian Infrastructure Fund's airport assets and the sale of Singapore Power's portfolio of utility assets to State Grid International.

Preqin estimates that infrastructure funds currently have up to $US86 billion in committed 'dry powder' for investment globally[1]. This figure excludes trade and industry players as well as Australian superannuation funds, which are also about to experience an increase in their capital inflows as a result of the change in the government-guaranteed contribution rate from 9% to 12% by 2019. While a number of domestic super funds traditionally used managers to invest on their behalf, some are starting to follow their North American counterparts and build out their internal capabilities. This will allow them to invest directly, thus increasing overall competition for key assets.

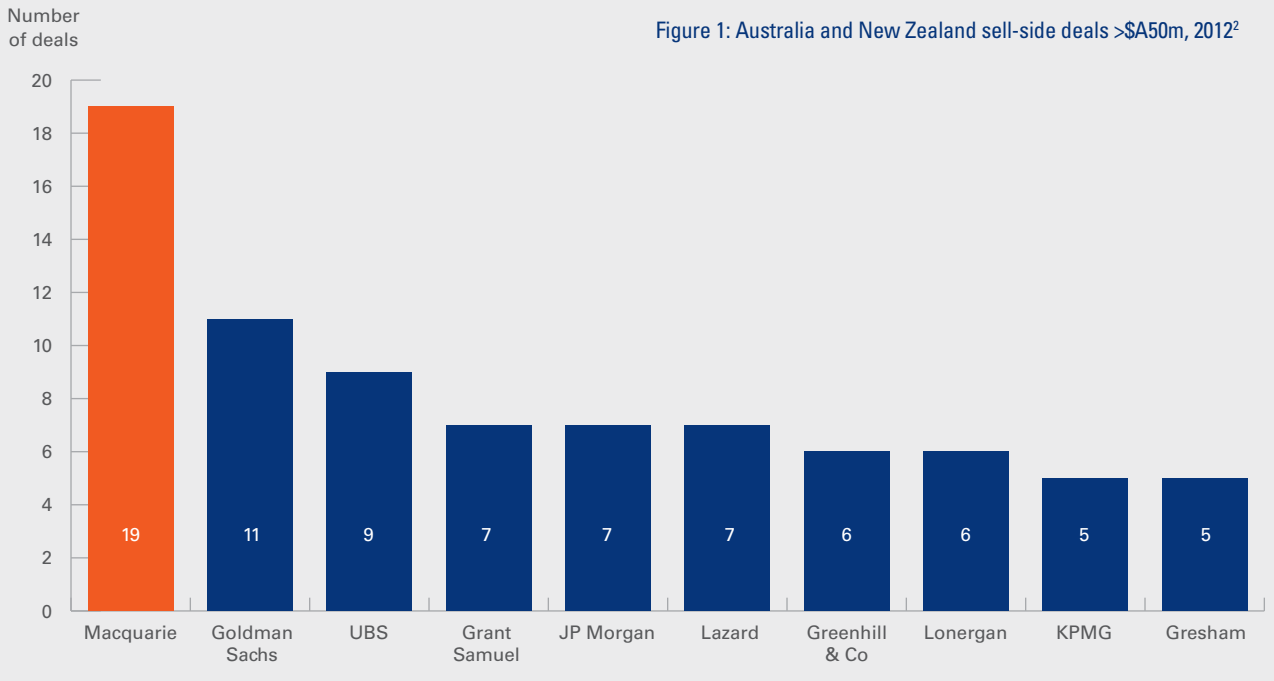
Stability in an uncertain world

The current economic environment has also demonstrated infrastructure's resilience. Asset valuations have held firm, despite the earnings volatility seen in other sectors as well as the more general global uncertainty in Europe, the US and in China. Infrastructure assets offer a greater level of earnings stability by virtue of their essential nature, high barriers to entry and monopolistic market positions. The fact that revenues and earnings are often inflation-linked also provides investors with a hedge against the monetary easing policies currently favoured by central bankers around the world. All of these characteristics have contributed to a renewed increase in global demand for both core infrastructure and adjacent 'infrastructure-like' assets.

The excess supply of capital, cautious economic outlook, and paucity of assets available has resulted in a very favourable sale environment for existing owners of infrastructure assets. Macquarie Capital has had considerable success in assisting clients to capitalise on these conditions, as reflected in its position as the leading sell-side adviser in Australia/NZ in 2012.

One reason for Macquarie's success has been its ability to leverage its network of international relationships across a full spectrum of potential infrastructure investors, from pension

Figure 1: Australia and New Zealand sell-side deals >$A50m, 2012[2]



FOR MORE INFORMATION PLEASE CONTACT:
Ivan Varughese
Associate Director
Macquarie Capital
Ivan.Varughese@macquarie.com
Tel: +61 3 9635 8375

and superannuation funds to trade and industry players. In the sale of the Hallett V wind farm in South Australia, Macquarie was able to maximise returns for the vendor, AGL, by utilising extensive industry knowledge to target a large number of international equity and debt providers, including a range of trading houses in Japan and Korea as well as investors in China, Singapore, the US and Switzerland.

A different perspective

Another key differentiator for Macquarie is the principal investor's perspective it brings to transactions. This was demonstrated in the Mumbida project, a greenfield 55MW windfarm development in Western Australia. Macquarie demonstrated a willingness to utilise its balance sheet and enter into a 50:50 joint-venture with Verve Energy to develop the project, despite significant legislative uncertainty and a climate of depressed Renewable Energy Certificate prices. This was achieved because of Macquarie's comprehensive understanding of the full spectrum of investment risks, from construction and operations to financing.

Macquarie's principal perspective, combined with its infrastructure expertise and global relationships, enabled it to successfully advise an Australian private equity vendor on the sale of a New Zealand waste business to a leading Asian infrastructure investor. Envirowaste was initially perceived by the market as an industrial business. By articulating a compelling investment thesis underpinned by Envirowaste's market-leading status, strategically located assets, predictable demand and low level of operational risk, Macquarie's innovative sale process positioned Envirowaste as a de-risked infrastructure-like asset. Having recently advised on the sale of the UK's Wales & West Utilities to Cheung Kong Infrastructure, Macquarie approached them with the Envirowaste opportunity. The result was a successful sale for Macquarie's private equity vendor that also provided Cheung Kong Infrastructure with a growth opportunity in the waste management infrastructure market.

The excess supply of capital, cautious economic outlook, and paucity of assets available has resulted in a very favourable sale environment for existing owners of infrastructure assets.

Increasing levels of investor appetite, coupled with the uncertain economic outlook for many traditional growth industries, would suggest that the healthy demand for infrastructure assets looks set to continue. Strong opportunities exist to match vendors seeking value realisation with investors seeking to deploy excess available capital. The key ingredient for success is structuring an appropriate process that connects both sets of parties.

1 As at August 2013; Source: Preqin Infrastructure Online

2 Source: Dealogic data for year ending 31 December 2012. Australian and New Zealand sell-side deals >$A50m with nominated Adviser

Hamish Tyrwhitt Chief Executive Officer, Leighton Holdings Limited

AUSTRALIA IN THE GLOBAL INFRASTRUCTURE CONTEXT

Infrastructure is fundamental to the global economy achieving its aspirations for jobs, growth and prosperity.

Around the world and here at home governments and industry must play a role in delivering the infrastructure that allows communities to leverage their productive capacity and reach their true potential.

We must set out a vision for sustainable growth based on strategic investment, innovation and enhanced productivity.

Addressing the infrastructure deficit both here in Australia, in our region and across the World is fundamental to delivering that vision.

Globally, we are suffering from chronic undersupply of infrastructure, leaving the world's most vulnerable communities without access to basic services, hampering efforts to stabilise and reinvigorate economies and achieving broad-based poverty reduction.

Every year, a US$1 trillion deficit in infrastructure is accumulating, falling short of the estimated $US4.5 trillion of infrastructure required each and every year just to realise projected global GDP growth, let alone deliver sustainable prosperity.

Rapid population and urbanisation growth rates are the biggest drivers of an estimated global demand for infrastructure of US$60 trillion between now and 2030.

The acceleration of urbanisation is also driving increased energy consumption, lifting incomes and introducing new technologies. The world will have more than 1 billion people in the consuming class by 2025 – people with discretionary income to spend on goods and services beyond the basic necessities, transport and communications.

While the deficit may seem to disproportionately impact developing countries, massive infrastructure deficits exist in developed economies too – Australia alone is estimated to have an infrastructure deficit well in excess of $300 billion.

Working with the private sector, Government must develop an infrastructure vision and a long-term strategy that extends beyond electoral cycles, and show the leadership needed to fulfil the potential of future generations of Australians.

Australia should aim to maintain infrastructure investment at or more than 4 per cent of GDP per annum, or cumulative spending of nearly $800 billion over 10 years, to address the infrastructure deficit and deliver jobs and growth that will re-instate Australia's competitiveness.

An opportunity remains to lock in more than $150 billion worth of investment in projects that are classed as 'under consideration' and continue to work to make viable another $250 billion and more of projects that are listed as 'possible'.

Australia is a gateway to the world's fastest growing economies yet the lack of infrastructure is arguably one of the biggest contributors to the ongoing decline in Australia's competitiveness and our ability to deliver to our potential.

The World Economic Forum's latest *Global Competitiveness Report* revealed a further decline in the competitiveness of Australia, now outside the top 20 economies for the

FOR MORE INFORMATION PLEASE CONTACT:
Kirk Coningham
Executive Business Manager,
Office of the Chief Executive
Leighton Holdings Limited
kirk.coningham@leighton.com.au
Tel: +61 2 9925 6025

Leighton Holdings

Australia has been very successful in attracting infrastructure investment into its energy and resources sector.

first time. Australia's roads, railways and ports all registered declines in terms of quality and major barriers to doing business in Australia such as increasing costs and an inefficient regulatory environment.

Project prioritisation and selection is critical to addressing the deficit with the greatest economic and social impact.

In addition to growing demand and undersupply, poor project selection often hampers the full potential of infrastructure investment. Coupled with identifying a pipeline of investment is the need to prioritise projects that are likely to deliver the greatest economic and or social benefits. Prioritised investment opportunities that demonstrate an evidence-based assessment are more likely to attract finance and provide greater certainty and confidence to the market.

Private capital is key to addressing the deficit and we must bring 'Partnership' back into to the PPP.

Since the Global Financial Crisis many countries are facing constrained public budgets and focusing on reducing debt. Most governments around the world are forecasting budget deficits until at least 2016.

Given these funding constraints and the large, global infrastructure deficit, governments are increasingly turning to the private sector for support. In this environment, public-private partnerships (PPPs) can accelerate infrastructure development by tapping into the private sector's financial resources, as well as its skills in designing, building, and operating infrastructure on a whole of life-cycle cost basis.

In addition, institutional investors, with substantial assets under management, are seeking long-term investment opportunities. But despite the apparent fit of demand for and supply of private-sector participation, too few projects get off the ground and too many PPPs have been plagued by delays, cost overruns, or renegotiations as a result of a sub-optimal preparatory phase.

Australia has been very successful in attracting infrastructure investment into its energy and resources sector. With such a track record, it is natural we are now seeking to continue this success. We will fail if we do not urgently address our productivity issues.

This demands a holistic approach that addresses the full range of constraints to productivity: from red and green tape to consistent and predictable taxation; from flexible access to skilled labour to world's best practice management.

Australia today has an extraordinary opportunity to be an integral part of the world's fastest growing region. Realising that opportunity demands a real commitment to planning, funding and delivering infrastructure. The choice is a simple one – invest now or get left behind.

Richard Cooper General Manager, Project & Infrastructure Finance, Australasia, National Australia Bank

THE CHANGING FUNDING LANDSCAPE FOR AUSTRALIA'S INFRASTRUCTURE SECTOR

Times have definitely changed since the catastrophe that was the GFC passed through the bank funding and capital markets both here in Australia and around the globe. At its height, bank debt was the only game in town, but the small number of active market players, along with bank funding pressures and volatility, curbed appetite. While the domestic banks for the most part held their resolve and picked up the slack, a number of the offshore players, particularly those that had large European footprints, retreated back to their domestic markets.

Equity Sponsors were keen to secure assets, albeit at the same time they were concerned with the refinancing risk that comes with the shorter tenor that was generally available in the Australian debt markets.

Fast forward to 2013 and recent activity indicates that the debt markets are now alive and well especially for Australian infrastructure. Based on recent experience, bank debt markets are deepening and the Australian capital markets are awakening. With a strong pipeline of new infrastructure procurement and potential asset sales high on the agenda for both State and Commonwealth Governments, this market development is very timely indeed.

How is funding in the project & infrastructure space developing? Where is investor demand coming from? Below we explore current trends in capital markets and where to next for Australian infrastructure sector funding.

Bank Debt Liquidity

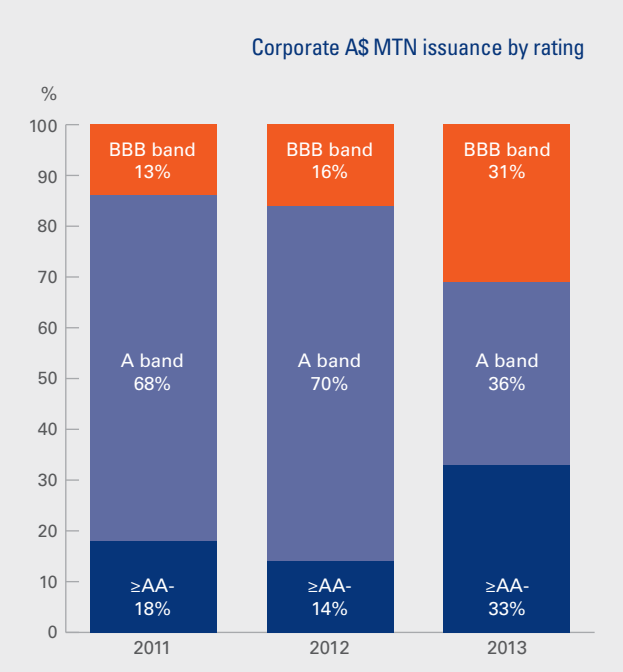
Loan market conditions in Australia are currently very positive. Domestic banks are highly active and offshore lenders are returning. Banks are seeking finance opportunities to generate transaction volume. However, they are fighting against the tide of generally low credit growth and prepayments following bond market issuance from borrowers searching for tenor and funding diversification.

The project & infrastructure finance market is not immune to these dynamics. Despite the solid flow of Greenfield transactions presented to the local market, lender appetite has grown faster than available transactions. Strong appetite for Australian infrastructure transactions in foreign and increasingly the domestic bond markets is also contributing to renewed appetite as key market participants are able to recycle this funding into new projects.

The outlook is optimistic for infrastructure financing in the loan market. A strong pipeline of transactions will be welcomed by the major arranging and underwriting banks and there is confidence in the ability to distribute both Greenfields and Brownfields transactions to the broader market in Australia and Asia.

Domestic Capital Markets

The A$ MTN market has also exhibited a marked increase in depth since the GFC and has become a viable source of debt funding for infrastructure borrowers. In 2013, a number of infrastructure sector issuers have taken advantage of this



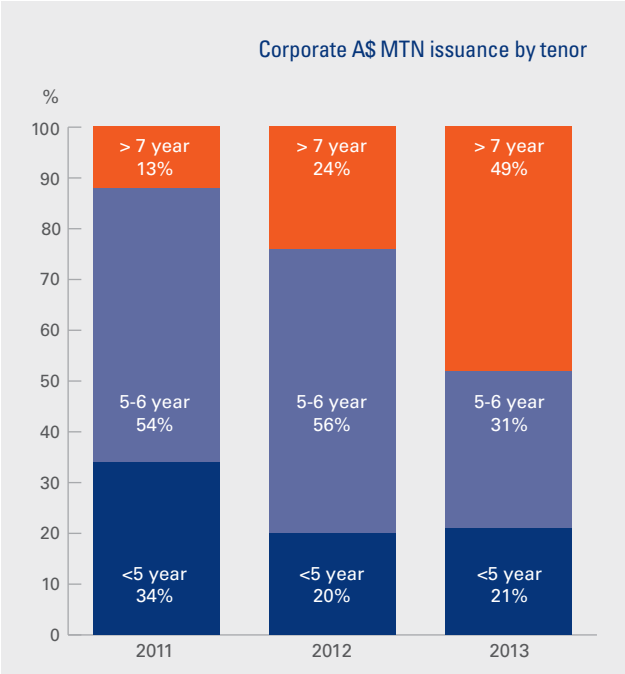
Source: National Australia Bank Ltd

FOR MORE INFORMATION PLEASE CONTACT:
Richard Cooper
General Manager, Project & Infrastructure Finance, Australasia
National Australia Bank
richard.h.cooper@nab.com.au
Tel: +61 416 230 526

market, including Australian Rail Track Corp, Australia Pacific Airports, Port of Brisbane, Perth Airport and ConnectEast. These transactions have been met with an overwhelmingly positive investor response, with the majority of transactions well oversubscribed, and collectively have accounted for 17% of the volume issued by corporate borrowers in the market in 2013 year to date.

The infrastructure sector is a natural fit for A$ MTN investors who are attracted to the sector's stable and predictable cash flows, supported by long term concession agreements and/or monopolistic market positions. While domestic investors have previously shown interest in a small number of transactions from the sector, the structural shift in investor appetite towards longer tenor has been key to the notable increase in issuance this year. In fact, seven years has now become a natural sweet spot for maturity. This, coupled with an increased willingness to invest volume further down the credit spectrum in search of yield, are seen as the major themes for 2013.

Looking forward we expect the A$ MTN market to continue to deepen offering larger volume and longer tenor across the credit rating spectrum at competitive pricing levels. The market now has the momentum to further develop and begin to readily provide tenor out to 10 years, particularly for the defensive, stable and high quality credits associated with infrastructure projects.



Source: National Australia Bank Ltd

Offshore Capital Markets

Offshore debt capital markets have strongly supported Australian infrastructure borrowers and are continuing to provide a reliable source of long term debt funding. Tenors of up to 30 years are on offer. In addition to the respective strength of the asset class, offshore investors gain comfort from Australia's robust legal regime, experienced management and generally high operational standards. Offshore investors have exhibited an increased appetite for infrastructure assets over the past two years, welcoming the additional diversification away from relatively plain "vanilla" corporate borrowers.

> The infrastructure sector is a natural fit for A$ MTN investors who are attracted to the sector's stable and predictable cash flows...

The US Private Placement market continues to exhibit a strong track record of funding Australian infrastructure, with recent successful issuance by borrowers such as Australia Pacific Airports, Brisbane Airport, Port of Brisbane, Dalrymple Bay Coal Terminal and Perth Airport.

Conclusion

There is no doubt that the environment for refinancing in the infrastructure markets has dramatically improved over the past 5 years. This has been a welcome relief to many sponsors and provides opportunities to diversify funding sources, provide price tension and reduce future refinancing risk with increased tenors more readily available.

Importantly this is a vote of confidence in the Australian project & infrastructure markets. The growing maturity of capital markets provides a strong future funding source for the sector. With a buoyant bank debt market and significant new issuance in both domestic and international bond markets, the Australian infrastructure sector is in high demand. Given the pipeline of projects, the continuing support of a broad cross-section of investors will be important in the coming years.

Hon Mark Birrell Chairman, Infrastructure Partnerships Australia

PASSING THE BATON: INFRASTRUCTURE UNDER THE NEW AUSTRALIAN GOVERNMENT

In recent years, the need for more and better infrastructure has become an issue of consensus between political leaders, the business sector and the broader community.

The policy debate about Australia's flagging economic productivity and the 'barbeque stopping' discussions about the cost-of-living pressures facing Australian households, are really flipsides of the same coin. Inefficient infrastructure creates costs for consumers and business alike.

The momentum of a new government with strong funding and policy commitments to infrastructure can position Australia to harness both the community expectations and economic requirements that sit over infrastructure. It's certainly a time for actions that foster new construction and investment.

Importantly, the new Australian Government has sought to accompany its commitments to immediately boost infrastructure funding with promises for medium term reform pathways that offer opportunities to improve strategic planning, increase project finance and encourage the development and refinement of core infrastructure markets.

The immediate outlook

The most immediate impact of the new Government will be the substantial increase in committed investment; and a logical streamlining of Commonwealth and state project approval processes.

Figure 1 (below) shows the additional funding promised by the Government, over the settings in the last Federal budget. On these revised settings, the Commonwealth will increase its economic infrastructure investment by circa 25 per cent, representing around $4.67 billion (nominal terms) in new project funds.

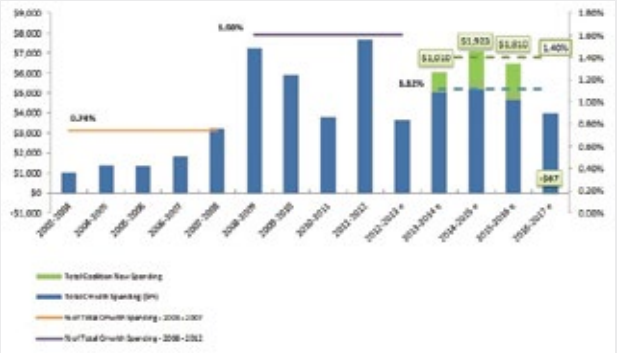
This increase in funding and commitment to the acceleration of major projects is both an important statement about the significance of infrastructure under the new government and a very timely step to safeguard construction skills, given the retreat in mining-related civil investment that is likely over the coming several years.

The enhanced funding and accelerated projects will also stir activity within the PPP market, with several major motorway commitments likely suited to privately financed delivery models. The WestConnex project in NSW and the East-West tunnel in Victoria will be immediate beneficiaries.

Figure 2 (right) outlines the key project commitments of the Abbott Government.

The second important near-term commitment is the sensible policy that will see Federal and state environmental and related approvals combined into a single, efficient process, largely administered by the states. This planned reform will serve to reduce avoidable delays and approval risks for major projects, in turn increasing the efficiency of project delivery and lowering the deadweight costs that are ultimately picked up by the taxpayers who fund public infrastructure.

Figure 1: Commonwealth economic infrastructure investment (committed budget spend + new Coalition spending commitment, excluding NBN and stimulus)



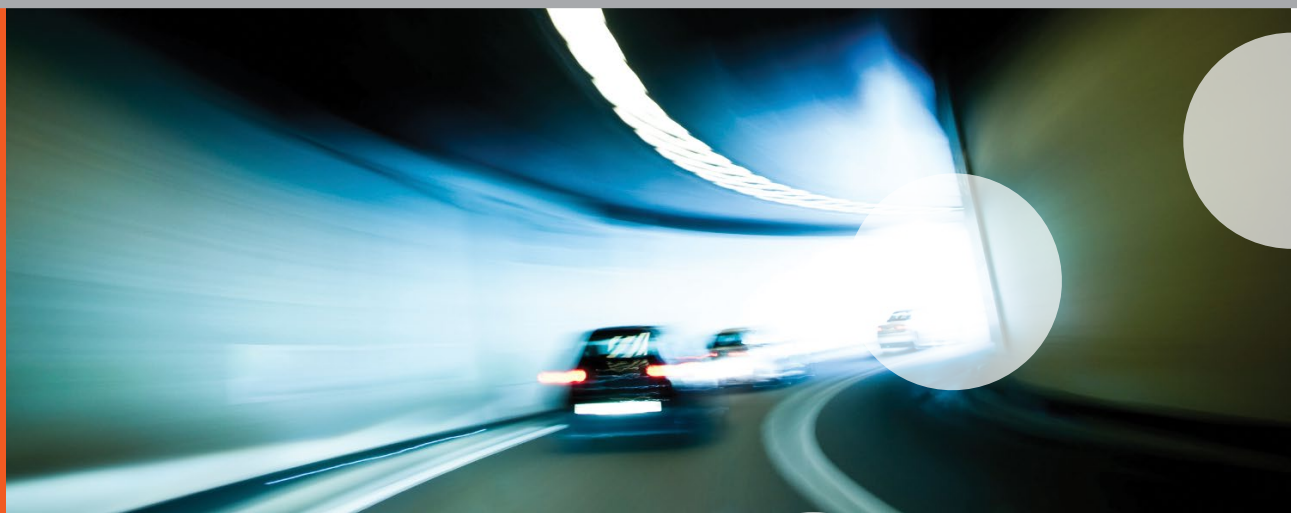


Figure 2: Major road funding initiatives – Abbott Government

PROJECT	STATE	DESCRIPTION	ESTIMATED COST	COALITION FUNDING
Bruce Highway	QLD	The upgrade of the Bruce highway is a programme of projects aimed at improving safety, increasing capacity and heightening the highway's flood immunity.	$11bn	$6.7bn (over 10 years)
East West Link (Stage 1)	VIC	The full East West Link is a proposed 18-kilometre cross city connection north of the Melbourne CBD. The Stage 1 component includes 4.4 kilometres of twin three lane tunnels from the Eastern Freeway to CityLink.	$6bn-$8bn	$1.5bn
WestConnex	NSW	A proposed 33 kilometre link between Sydney's west and the airport and Port Botany precinct.	$10bn-$13bn	$1.5bn
Gateway Upgrade North	QLD	Capacity upgrades to improve road freight connectivity between key northern centres and the port precinct.	$1.4bn	$1bn
Gateway WA	WA	A package of road improvements and additions which will upgrade the road network around the Perth Airport.	$1bn	$686m
Swan Valley Bypass	WA	The construction of a 40 kilometre highway from the Tonkin Highway/ Reid Highway intersection in West Swan to the Great Northern Highway at Muchea.	$840m	$615m
South Road Upgrade – Darlington Interchange	SA	Upgrade of key sections of South Road located within Darlington to remove key bottlenecks and increase capacity.	TBC	$500m
Midland Highway	TAS	The progressive upgrade of the Midland Highway to improve safety and increase capacity.	$2.7bn	$400m (over 10 years)
Pacific Highway	NSW	Full duplication of the highway between Sydney and Brisbane to dual carriageway grade.	$8.2bn	$5.6bn
F3-M2	NSW	The project would comprise tunnels under Pennant Hills Road, connecting the F3 to the M2.	$2.65bn	$405m
Warrego Highway	QLD	Upgrade of the highway to create increased capacity in line with increasing passenger and freight traffic.	$635m	$508m
Toowoomba Second Range Crossing	QLD	The construction of a second range crossing that takes highway traffic around Toowoomba rather than through it.	$1.66bn	$700m

The most immediate impact of the new Government will be the substantial increase in committed investment...

Passing the baton: Reforming Infrastructure Australia and fiscal strategy

Beyond the immediate impact of the additional funding and process reform, the commitment to retain and enhance Infrastructure Australia and review the Commonwealth's fiscal strategies show the substantial consensus that now exists between the major parties about the direction of infrastructure policy.

In terms of Infrastructure Australia (of which I am a Member), the most substantial change will likely be a refocusing of the agency toward its first principles – the identification and acceleration of projects of national significance; together with a greater latitude and independence to identify and champion national reforms across the Federation.

The Government promised in its policy statements to create a formal reporting relationship between the Infrastructure Australia CEO and the Board; and the provision of new personnel with skilled understanding of project funding and financing. The expressed aim was to ensure Infrastructure Australia achieves a desired level of national impact.

The Coalition's plans to increase Infrastructure Australia's independence and to renew the infrastructure audit process (with its resulting project priority list) each represent a substantial improvement to the status quo – and are likely to see an activist approach to project delivery.

INFRASTRUCTURE PARTNERSHIPS AUSTRALIA
BUILDING AUSTRALIA TOGETHER

FOR MORE INFORMATION PLEASE CONTACT:
Hon Mark Birrell
Chairman
Infrastructure Partnerships Australia
mail@markbirrell.com
Tel: +61 2 9240 2050

The promised Commission of Audit is also fundamental to the infrastructure sector, because it is the review which – done well – will find opportunities to alter spending to free up capacity for project funding, within the existing revenue settings available to the Government.

Potentially, the Commission of Audit could identify opportunities for the sale of Commonwealth assets or businesses, with these sale proceeds immediately available to be recycled into the new, high productivity projects that Australia needs. The only confirmed asset to be sold is Medibank Private, but speculation has suggested that the Commission of Audit may also recommend other assets that can be sold.

As well as creating funding capacity, Commonwealth asset sales would be a demonstration of Federal leadership on budget reform, paralleling the deliberations of state governments who are grappling with the need to restructure and divest major asset holdings, such as the electricity assets in Queensland and NSW.

The arrival of a new government with a mandate for change and explicit infrastructure policy and funding commitments is likely to drive substantial reform and investment...

The Commission of Audit will mark the first substantial review of the Commonwealth's expenditures since 1996.

The new Australian Government has also committed to a substantial and meaningful taxation review. A fundamental review of the tax transfer system (including the GST) will allow an opportunity to consider the long-term requirement for capital and recurrent funding, and potentially, meaningful reforms to Commonwealth-state relations and funding arrangements.

Of course, using a traditional tax green paper/white paper process will also assist in ensuring predictable tax policy and allow for open and deliberate consultation across the community and business sectors, in advance of any change.

In the longer term, the national review of the taxation system will offer substantial opportunities to put public finances on a sustainable footing, as well as to consider anew how reforms to transport taxation and funding and other matters might remove deadweight costs across the economy and improve the relative efficiency of project funding and delivery.

Conclusion

Over the last decade Australia has been well served by a general consensus between national policymakers about a positive pathway toward better infrastructure.

The focus of the Federal Parliament on reforms to increase the rigour of strategic infrastructure planning across jurisdictions, the harmonisation of procurement and contracting models, and the development of a cogent long-term pipeline of project requirements represents very good policy.

The former government has much to be proud of in terms of its impact and stewardship of the sector. The creation of Infrastructure Australia; the appointment of a coordinating national infrastructure minister and a range of other initiatives have left a strong architecture that has permanently changed the structure of the infrastructure market.

The sector should now be optimistic about the short and longer-term outlook for Australia's infrastructure market. The arrival of a new government with a mandate for change and explicit infrastructure policy and funding commitments is likely to drive substantial reform and investment across the nation's infrastructure and broader economy.

Shane Evans Director, Kreab Gavin Anderson

CASE STUDY: NSW GOVERNMENT FIXING THE TRAINS

FOR MORE INFORMATION PLEASE CONTACT:
Armon Hicks
Managing Partner
Australia/New Zealand
Kreab Gavin Anderson Worldwide
ahicks@kreabgavinanderson.com
+ 61 2 9552 4499

In May 2012, the NSW Government announced one of the biggest shakeups of the state's railways in a generation.

The comprehensive plan – called 'fixing the trains' – sought to deliver lasting change which would radically improve customer service and ensure the long term future of the state's train network. With passenger demand on the network expected to increase by 50 per cent over the next 25 years, and RailCorp one of the most expensive rail systems in the world to run, change was essential.

The government's plan would split the existing rail operator (RailCorp) into two new entities, Sydney Trains for suburban services and NSW Trains for intercity and country services. The ambitious start up date for these new specialist rail operators was set at 1 July 2013.

A key component of the reform program was a concerted push to slash top heavy, back office bureaucracy to simplify processes and promote innovation and decision making. To help achieve this, 750 voluntary redundancies were offered to RailCorp middle management, mostly in Head Office.

Whilst the government was committed to continuing to invest in improving the rail system, it was determined to get better value for money following the reform program. Costs had been increasing by about 7 per cent per year since 2006/07, and RailCorp's operating costs were running at about 50 per cent higher than internationally comparable systems on a per passenger kilometre basis.

Turning the organisation into an efficient, effective and customer focused rail operator and maintainer also required transferring policy and planning functions from RailCorp to Transport for NSW.

Cleaner trains and stations were important proof points for reform. Customer satisfaction ratings for train cleanliness was at 46 per cent prior to reform. The establishment of a specialist cleaning unit to attack graffiti and rubbish on dirty trains and stations was an immediate priority.

The cleaning unit was supported by specialist external management and new commercial cleaning techniques, tools and benchmarks were introduced.

Turning the organisation into an efficient, effective and customer focused rail operator and maintainer also required transferring policy and planning functions from RailCorp to Transport for NSW.

With a broad range of initiatives designed to fix the trains and deliver a world class service, the momentum for change needed to be maintained. It was important to continuously prosecute the case for change and recognise where reform was progressing and delivering results which would benefit customers and drive the strategic goals of the organisation.

The new rail providers, Sydney Trains and NSW TrainLink, successfully launched as scheduled on 1 July, 2013.

Kreab Gavin Anderson was engaged by the RailCorp Reform Team to provide strategic communications advice.

KREAB & GAVIN ANDERSON
WORLDWIDE

Gary Dolman Head of Bureau, Bureau of Infrastructure Transport and Regional Economics

PATRONAGE FORECASTING: IF WE BUILD IT HOW MANY WILL USE IT?

Australia faces significant challenges in meeting the infrastructure needs of our expanding cities and a population estimated to grow to 35 million by 2050. While the Australian economy remains strong, fiscal restraints hamper governments' ability to fund and maintain nationally significant infrastructure projects. Private sector investment is fundamental in securing a sustainable future. Getting patronage forecasting right, including improved modelling is important to restore confidence.

Australia's first National Public Private Partnership (PPP) Policy and Guidelines were endorsed in 2008 by the Council of Australian Governments. Infrastructure Australia has identified priority projects and the National Infrastructure Construction Schedule provides a pipeline of all known and forecast infrastructure investment by all three levels of Government. However, there has been a lowering of investor confidence due in part to over-optimistic patronage forecasts. Improving approaches to managing demand forecasting and patronage risk for infrastructure projects is essential to bolstering investor confidence and delivering the transport infrastructure required to boost economic growth.

Over-optimistic patronage forecasts have led to some well-reported commercial failures including the Sydney Cross City Tunnel, Lane Cove Tunnel, and Brisbane's CLEM 7. A study of five Australian toll roads found that actual traffic volumes were, on average, 45 per cent less than forecast in the first year of operation.

Governments are concerned for a number of reasons. Over-optimistic patronage forecasts can direct scarce resources to underperforming investments, which in turn reduces productivity. Commercial failures can make it more difficult to attract private sector funding for future worthwhile infrastructure projects and hurt small investors, reducing confidence in Australia's investment regime.

To counter this trend, work has been undertaken to understand the causes of the forecasting errors for recent toll road projects and to propose solutions. Initiatives to reduce the risk to investors from being misled by over-optimistic patronage forecasts are seen as an important step towards restoring confidence.

In 2011, the Bureau of Infrastructure, Transport and Regional Economics (BITRE) led work to investigate the causes of over-optimistic patronage forecasts. Looking at several Australian case studies revealed a number of sources of pressure for over-optimistic forecasts and ways that forecasters can introduce bias. It was found that the bidding processes for toll road PPP projects led to the selection of the most optimistic forecasts. There are also deficiencies with the travel demand models used to forecast toll road patronage and the data in the models.

In the same year, BITRE in partnership with IPA held a Symposium at which invited experts – consultants, academics,

Initiatives to reduce the risk to investors from being misled by over-optimistic patronage forecasts are seen as an important step towards restoring confidence.

Australian Government
Department of Infrastructure and Regional Development

FOR MORE INFORMATION PLEASE CONTACT:
Gary Dolman
Head of Bureau
Bureau of Infrastructure, Transport and Regional Economics
gary.dolman@infrastructure.gov.au
Tel: + 61 2 6274 7791

bankers, toll road operators, and government officials – met to discuss possible solutions. International expert, Dr Robert Bain from the UK, addressed the Symposium, making the often-overlooked point that single-number forecasts can never be accurate. They can only indicate the centre of a range of possible outcomes. This range increases the further into the future one looks so that more attention should be given to estimating the size of the range of error. Subsequently, the Department of Infrastructure and Transport issued a consultation paper with a call for submissions.

The Symposium and the submissions identified a large number of causes of over-optimistic forecasts and ways to address the problem. Further information and consultation determined the best options to take forward. The issues fall into two groups: (1) improving data and models and (2) reducing incentives to exaggerated forecasts.

Improving data and models

In relation to data and models, consultation with experts has identified eight priority tactics. Highest ranked are the development of guidelines for toll road modelling which also provide a pro forma for auditing; improved data collection using new technologies to increase the quantity and improve quality of data; and provision of suitable reference models by state governments to be used as a starting point for more detailed toll road modelling and serve as a benchmark for comparing model results. Other priority ideas include developing centralised databases by state governments to improve data access; improved commercial vehicle data and modelling; further research into the public's willingness-to-pay for using toll roads; review of the traffic pattern during the ramp-up period and annualisation factors (converting time-of-the-day into daily traffic and from daily into annual traffic); and improved modelling of congested networks.

Taking advantage of new technologies to collect better travel data is seen as a particularly promising avenue for further work. Mobile phones, GPS units, bluetooth devices and CCTV can provide information about travel patterns. Already there are firms in the US purchasing data from mobile phone operators and processing it into a useable form for transport planning.

Privacy issues will need to be addressed. BITRE together with Infrastructure Partnerships Australia are jointly organising a workshop to bring together potential data providers, data processors, travel demand modellers, privacy law experts and government officials to explore the opportunities these new data sources offer and to develop a plan for their use in Australia.

Reducing incentives for over bidding

In relation to incentives, in 2012 BITRE commissioned Dr Robert Bain to produce a paper to stimulate discussion – Disincentivising overbidding for toll road concessions. The paper focusses on international experience and practice. (http://www.infrastructure.gov.au/infrastructure/infrastructure_reforms/patronage_risk.aspx)

Overbidding occurs in many countries and Australia can learn from their experiences. In the pre-procurement phase, rigorous and transparent project vetting is important. In designing concessions, incentives for excessive risk-taking should be avoided, while, at the same time, not insulating concessionaires from traffic risk. Many commercial collapses of toll roads around the world are a direct result of aggressive financings with too much debt. Some attention might usefully be directed at the capital structures being proposed. Much greater emphasis should be given to assessing and testing the deliverability of bidder submissions and plans and the assumptions embedded in bidders' financial models. More use should be made of 'peer reviewers' or auditors, particularly to check forecasts.

Where to from here?

Implementing a selection of the measures proposed will take time and, in some cases, will require government funding. Realising the best of the initiatives put forward to date will help to reverse the loss of confidence in toll road investments and encourage private sector investors.

Clare Baldwin Manager, Sustainability, Transurban Group

SUPPORTING SUSTAINABLE GROWTH THROUGH A NEW F3-M2 LINK

Transurban recently adopted a simpler, more practical approach to sustainability designed to put the company – and its partners and contractors – on a clearer path toward reaching shared sustainability targets. The first project to benefit from this fresh perspective will be a link between the F3 and M2 in northern Sydney.

A new sustainability strategy

Transurban's Board and management are committed to taking a sustainable approach to operations, projects and business practices to create the best outcomes for our government clients and our communities.

In 2013, the Board endorsed a revised sustainability strategy for the company which underpins Transurban's corporate strategy and reinforces our vision to "strengthen communities through transport".

The sustainability strategy – to enhance our licence to operate – has three focus areas:

- Be good neighbours – anticipate, listen and respond to community needs
- Use less – reduce the impacts of our operations on the community and the environment, and
- Think long term – improve transport networks to help people, goods and services move more efficiently and safely across our cities both now and into the future.

Transurban believes these concepts are a clearer way to view sustainability, but they represent just the top layer of the company's new approach. Under each of the focus areas is a wide range of programs and activities across markets and business functions. Currently, the three key business-wide initiatives for Transurban are:

- A community investment strategy
- An energy reduction target for operations of our management-controlled assets, such as CityLink and Hills M2, and
- Sustainability objectives for new road or upgrade projects, such as the F3-M2.

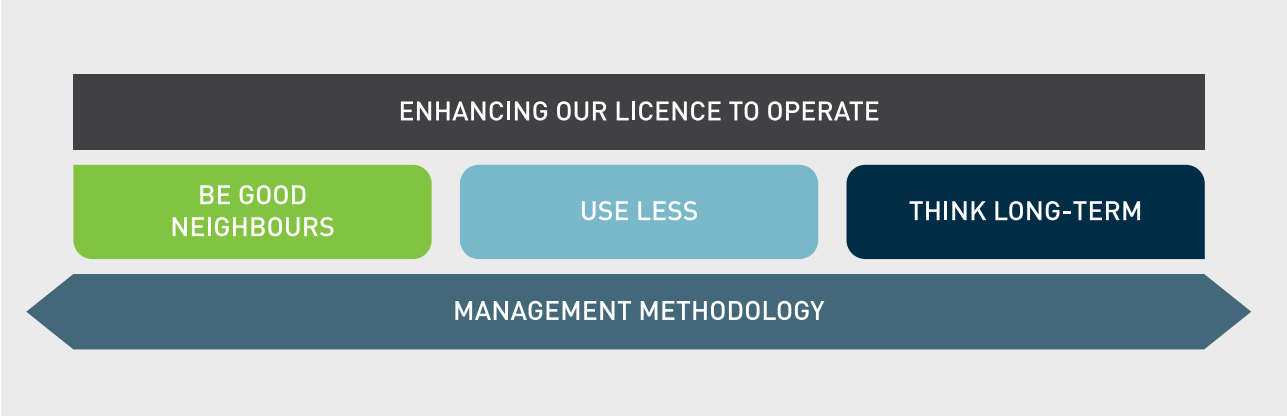
Transurban believes the principles inherent in the new sustainability focus areas enhance the Group's ability to deliver efficient and integrated transport networks that support productivity and the wellbeing of communities.

Applying the principles on the F3-M2

On the F3-M2 (see breakout box for project details), project sponsors Transurban and the other Westlink M7 shareholders will work together with the New South Wales (NSW) Government to achieve strong sustainability outcomes across all stages of the project – from asset design to construction to operation.

To do this, the project sponsors will work closely with contractors on a shared sustainability agenda throughout the project's life cycle. This is a new way of doing business for Transurban – and represents a level of collaboration the company intends to demonstrate on its major projects in the future.

As part of the tender process for the F3-M2 shortlisted consortia have been asked to provide an outline of their



FOR MORE INFORMATION PLEASE CONTACT:
Clare Baldwin
Manager, Sustainability
Transurban Group
corporate@transurban.com
Tel: +61 3 8656 8900

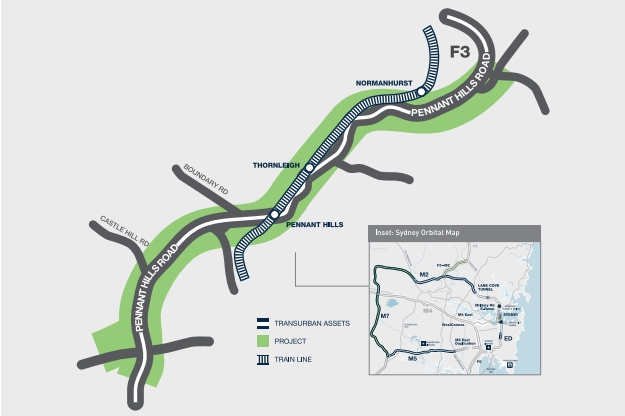

Source: Northern Sydney Regional Organisation of Councils

sustainability plan, which would need to show how the project can:

- Demonstrate sustainability leadership by achieving an excellent 'as built' rating using the 'Infrastructure Sustainability' tool developed by the Infrastructure Sustainability Council of Australia
- Better manage resources by cutting down on waste, reusing materials and incorporating materials with a lower environmental footprint
- Consider new approaches, including smart technologies, to reduce energy use during design, construction and operations, and
- Support economic development in the local community by purchasing from businesses in the area, and training and hiring labour within the project corridor.

Transurban will also work with the shortlisted consortia to establish final targets, which will be embedded into contracts and other formal agreements. The principal contractor will then be responsible for achieving these in collaboration with the project sponsors.

Transurban believes making its sustainability expectations clear early on in the project will elevate the commitment of all parties, and, ultimately, deliver better outcomes in the F3-M2 corridor.



F3-M2 project overview

Scope

Construction of an eight-kilometre tunnel in the Pennant Hills Road corridor of northern Sydney to connect the F3 Freeway at Wahroonga to the Hills M2 motorway at West Pennant Hills/Carlingford.

Timeline

- The F3-M2 proposal was submitted to the NSW Government in July 2012 under the State's three-stage unsolicited proposal assessment process.
- The proposal reached Stage 3 in May 2013, meaning the State and the project sponsors are negotiating a final binding offer.
- The project sponsors and the NSW Government are aiming to have a conditional preferred tenderer by the early part of calendar year 2014.
- Financial close is targeted for mid to late calendar year 2014.

Benefits

- Reduced traffic congestion, particularly along Pennant Hills Road
- Quicker travel times by allowing motorists to avoid stop-start arterial roads
- More efficient movement of freight
- The potential for better integration with the regional transport network , and
- Reduced heavy vehicle traffic and noise
- in local communities.

Funding

The toll road project has a target cost of $2.65 billion. It will be jointly funded by the project sponsors and the NSW and Federal governments, which have committed to a combined government contribution of $800 million.

Design and construction

The project sponsors have started the Request for Tender process, shortlisting three consortia to bid for the design and construction of the F3-M2 project.

The consortia are Thiess John Holland Joint Venture, Lend Lease Bouygues Joint Venture and GlobaLink Joint Venture comprising Ghella and Acciona Infrastructure Australia.

Russell Smith Chief Executive Officer, Port of Brisbane Pty Ltd

PORT OF BRISBANE – MANAGING THE NATIONAL FREIGHT TASK

Freight transport infrastructure planning across Australia's major cities has for decades been held captive by the combined planning forces of rapid urban development, population growth and a bias towards road over rail networks to sustain economic prosperity.

Now, crunch time has come for all levels of government, Australia's infrastructure planning authorities and the private sector to tackle the growing freight task. This will require the formalising of long-term, sustainable planning solutions for intermodal freight infrastructure, including the preservation of future transportation corridors and terminal sites.

Major commuter road arteries and passenger rail networks in Sydney, Melbourne and Brisbane are groaning under the strain imposed by freight transport to meet increased demands for household goods and industrial trade.

In Queensland, the freight task is expected to be driven by strong economic activity, including population growth and the continued impact of globailisation on international trade.

Annual freight volumes across Queensland, according to the State Government's 2013 Moving Freight Strategy, are forecast to increase by 76% from 881 million tonnes in 2009 –10 to 1550 million tonnes by 2021.

In regions surrounding the Port of Brisbane, in particular Brisbane, the Gold Coast and Ipswich, the population is expected to grow substantially. For example, Ipswich is expected to double its 2006 population by 2021.

While this growth will result in increased demand for general freight across the state, it will primarily drive South East Queensland freight movement and add further stress to what are already heavily congested road and rail networks.

In South East Queensland, for example, around 95% of container freight accessing the Port of Brisbane is transported by road, generating over three million truck movements to the Port each year.

> ...freight transport should be positioned as a critical economic enabler for all states, rather than a 'problem' that can be solved by ill-considered solutions driven by political cycles.

Without a dedicated freight rail solution, it is forecast that by 2025, over seven million annual truck movements servicing the Port will be required to sustain Queensland's population and economic growth.

Brisbane is the only capital city in Australia where freight still travels through the inner city rail system. This means that passenger and freight rail services share a common network and track capacity whereby freight trains are restricted from using the network in the passenger peak period.

Congestion reduces export supply chain productivity via increased transport costs. A 2007 study by the Bureau of Infrastructure Transport and Regional Economics (BITRE) estimated that the avoidable costs of congestion in Brisbane, including increased travel time for both private motor vehicles and the delivery of freight, would grow from $1.2 billion in 2005 to $3 billion in 2020; the greatest increase of any Australian capital city.

In this context, freight transport should be positioned as a critical economic enabler for all states, rather than a 'problem' that can be solved by ill-considered solutions driven by political cycles.

Infrastructure Australia's National Land Freight Strategy Update (June 2012) sets this agenda by providing clear principles for the development of a long term, coordinated approach to infrastructure planning and investment in intermodal freight networks.

In the Queensland context, Infrastructure Australia's National Land Freight Strategy Update (June 2012) clearly states that a priority should be to develop "dedicated interoperable rail freight access from new freight generating areas to the Port of Brisbane".

The strategy adds that, if achieved, this priority would demonstrate practical integration of urban planning and freight.

PORT of BRISBANE
Here for the future

FOR MORE INFORMATION PLEASE CONTACT:
Cameron Tomes
Manager External Affairs
Port of Brisbane Pty Ltd
cameron.tomes@portbris.com.au
Tel: +61 7 3258 4938

Further emphasising the urgent need for dedicated freight rail in Queensland, the 2013 National Land Freight Strategy – "A Place for Freight" report delivered by the Standing Council on Transport and Infrastructure (SCOTI), heavily emphasised the imperative of improving port accessibility through more efficient and productive transportation methods to maintain Queensland's economic growth and secure Australia's global trade competitiveness.

Since privatisation in 2010, Port of Brisbane Pty Ltd (PBPL) has invested significant resources and capital into identifying sustainable, balanced transport solutions, including freight rail, which can support Queensland's growing freight task.

A dedicated rail freight solution connecting the consumer, agricultural and resources sectors located west of Toowoomba with the proposed Inland Rail project and the Port of Brisbane would deliver significant benefits to the Queensland and Australian economies. Over 40% of trade currently handled by the Port of Brisbane originates from regions in the corridor from the Port to west of Toowoomba.

The challenge for state and federal governments, in responding to the growing freight task, is to have the courage to make evidence-based, 'once in a generation' planning decisions to preserve land corridors and avoid the prohibitive costs of delivering rail freight infrastructure through 'Brownfield' high density suburbs.

Encouragingly, Queensland is taking action to secure the sustainability of the State's critical agriculture and resources sectors by supporting the Dedicated Freight Rail Corridor (DFRC) project, a nationally significant piece of transport infrastructure.

The DFRC will help shape a better future for Queensland by providing a new dedicated freight rail corridor linking consumer, agricultural and mining sectors west and south west of Toowoomba (and ultimately the Inland Rail project) directly to the Port of Brisbane.

Developing the DFRC will deliver extensive economic and social benefits to Queensland and the national economy, including:

- a significant reduction in future truck related traffic congestion in South East Queensland;
- improved road safety;
- removal of freight rail services through most of the Brisbane Metro rail network creating more passenger capacity and stimulating transit orientated developments;
- regional investment in intermodal hubs;
- reduced road infrastructure costs (in terms of both capital and maintenance); and
- improved air quality through reduced carbon emissions.

Importantly, the DFRC would also substantially enhance the business case for an inland rail line from Melbourne to Brisbane, enabling freight to be transported via rail more efficiently through the eastern states of Australia. The DFRC is, in essence, the key to unlocking the Inland Rail project.

PBPL has invested significantly in the development of options for the DFRC and is currently completing a pre-feasibility study for the project in partnership with State and Federal government and industry stakeholders. Such a study will demonstrate the commercial, social and environmental viability of dedicated freight rail servcing the Port of Brisbane – Queensland's largest port.

Andrew Newman Division Director, Macquarie Capital

BRIDGING THE INFRASTRUCTURE FUNDING GAP

Governments around the region are facing a now-familiar challenge. As pressure mounts on the existing infrastructure network, driven by population growth and general demand for higher levels of servicing, Governments must bridge a growing gap between infrastructure development demand and the limitations of budgetary constraints.

Historically high capital expenditure programs over the previous five to seven years and the escalating cost of delivering services have significantly reduced balance sheet capacity. The situation is further complicated by political promises to restore or maintain AAA credit ratings in combination with achieving budget surpluses.

Estimates of the infrastructure deficit in Australia vary widely, with the only consensus being that the gap is large – and growing. With continued infrastructure development a necessity for improving productivity and sustaining growth, Governments increasingly recognise that they are unable to bridge the infrastructure deficit without private sector support.

> "Having the private sector acquire a long-term lease to operate Port Botany will improve efficiencies and enable the New South Wales Government to invest in priority infrastructure, both of which will enhance ongoing productivity." **Mr Mike Baird, New South Wales Treasurer**

In response to the limited capacity over the forecast periods, Governments have indicated a willingness to investigate, and in some instances have already implemented, alternative financing strategies incorporating a greater level of private sector involvement.

Private sector financing appetite

The private sector has identified the infrastructure sector as a key growth area in both Australia and New Zealand. Estimates of the investment required for the development of new infrastructure in Australia alone range from $A455 billion to more than $A700 billion over the decade from 2008 to 2018. In addition, it has been conservatively estimated that in excess of $A100 billion of infrastructure-related assets are still owned by various Australian Governments.

This unprecedented level of required investment has resulted in a significant increase in demand from the private sector to finance and manage infrastructure assets. This in turn is driving both a rapid and significant reduction in required private sector investment returns and increased risk transfer, as investors consider taking on more risk in order to grow or maintain required returns.

These two key factors have the combined effect of delivering greater value for money to the respective Governments, highlighting the advantages of private sector involvement in the development of major infrastructure.

A recent report released by Preqin indicated there was in excess of $A250 billion[1] available for investment in infrastructure assets.

> "Money is not the problem – there's plenty of capital – the issue is deal flow." **Mr Paul Foster – Head of Infrastructure AMP Capital**

Rice Warner has forecast that the Australian superannuation market will reach $A3.2 trillion by 2022 under current policy settings, making it one of Asia-Pacific's largest pension markets. The role of superannuation funds in the development of infrastructure has seen steady growth, with allocations to infrastructure increasing from 2% up to 15% in some instances over the past decade.

This increasing allocation towards infrastructure will need to be maintained to ensure the successful delivery of key infrastructure developments, driving continued economic growth and long-term productivity.

Considering alternative financing strategies

As one of the key private sector participants in developing major public infrastructure, Macquarie has been actively engaging Government agencies and departments. These discussions have highlighted the need for a case-by-case approach to each project development or potential asset monetisation, to ensure maximum value for money is delivered.

FOR MORE INFORMATION PLEASE CONTACT:

Andrew Newman
Division Director
Macquarie Capital
Andrew.Newman@macquarie.com
Tel: +61 8 8203 0390

Key aspects for consideration include:

- Development of a robust and independent Business Case for each asset, highlighting the benefits of private sector involvement and value for money delivered to the Government and State
- Allocation of risk to the party best placed to manage it: unbalanced risk allocations can limit private sector innovation
- Flexibility for Governments to consider utilising their own balance sheets to transfer risk at optimal price and timing.

Engagement with the private sector during the Business Case is critical in ensuring a balanced approach is taken. Appointing experienced advisors (including financial, legal, tax and accounting) ensures that Governments understand the requirements of private sector investors, and can develop structures that optimise private sector involvement and innovation.

Macquarie's expertise and ability to deliver value for money solutions that provide relief to Government fiscal pressures has been demonstrated by a number of significant engagements across the region, such as the $NZ1.7 billion partial IPO of New Zealand Government-owned electricity gentailer Mighty River Power. The first New Zealand Government privatisation in 14 years, it was also the first transaction in the Government's 'Mixed Ownership Model' (MOM) programme of selling holdings in a number of state-owned enterprises and investing the proceeds in capital projects to help grow the economy and improve public services. As Joint Lead Manager, Macquarie was able to achieve the Government's New Zealand ownership and valuation targets. The successful transaction should pave the way for further MOM privatisations.

This unprecedented level of required investment has resulted in a significant increase in demand from the private sector to finance and manage infrastructure assets.

In Australia, Macquarie advised the NSW Department of Finance and Services on the sale of its $A405 million office property portfolio, following a Macquarie-led strategic review of property asset utilisation, ownership and management. It is also adviser to the NSW Treasury and Sydney Motorways Project Office on the approximately $A11 billion WestConnex Motorway Project, developing financing strategies that provide maximum flexibility for the State while managing patronage risk.

As the infrastructure funding gap continues to grow, the role of Macquarie and other private sector participants will be increasingly important to Governments' ability to deliver infrastructure to underpin Australia's future growth and prosperity.

1 Source: Preqin, 2010. Preqin Real Estate May Research Report – estimate of available equity investment of A$80 billion grossed up to assumed 2:1 gearing

James Stewart Chairman of Global Infrastructure, KPMG

GLOBAL DEVELOPMENTS IN THE INFRASTRUCTURE AND PPP MARKETS

The past few years have been challenging for the infrastructure sector. Despite the significant increase in investment ambitions, many governments around the world have struggled to bring projects to market and, as a result, pipelines have been frustratingly thin. Financing markets have continued to be tight, economic stability remains elusive and activity is subdued. However looking ahead, the foundations for future growth are being laid and – for many markets – the prospects are exciting. Set out below are five key trends that, in my opinion, are changing and will change the way infrastructure is delivered in the future.

Trend 1 – The cost burden shifts to the consumer

Governments around the world are increasingly struggling to find the resources within their capital and revenue budgets to pay for the infrastructure that they so desperately need. Consequently they are starting to consider how they can shift the burden of the infrastructure spend from the taxpayer to the consumer or to put it another way off the Government books.

Such a move will invariably be politically sensitive; rising energy costs or water bills are always difficult issues to sell to voters. However the reality is that hidden subsidies or cross-subsidies are distorting the market; sometimes positively, sometimes negatively. Regardless, one thing is clear: we have shifted onto a path of increased transparency and true user pay pricing.

While achieving this transition will be tough for most governments, it is the inevitable answer to how to pay for our future infrastructure. More realistic pricing and user-pay services will lead to clearer price/consumption signals to users (thereby reducing the need for increased investment in the future), and allow governments to channel funds into higher priority or higher risk projects.

Trend 2 – Governments having to become more active

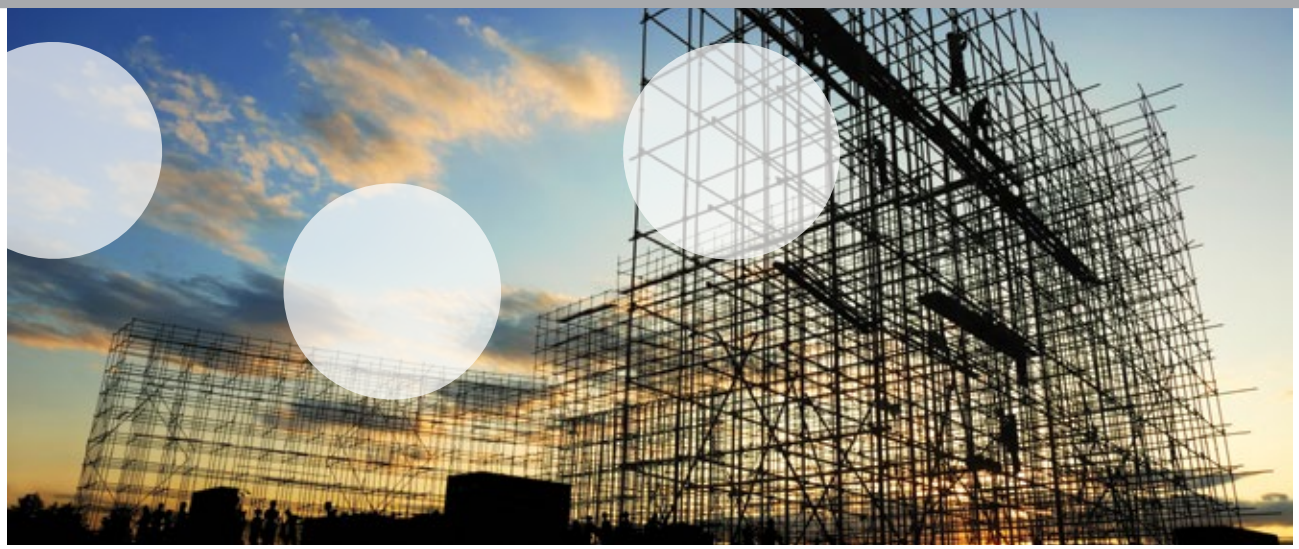
Governments are recognising the need to take a more significant role if they hope to meet their citizens' infrastructure demands. The simple truth is that not every infrastructure project can attract private investment or is proceeding at the right pace meaning that governments are being forced to step up and fill the gap.

With direct public investment quickly becoming an option of last resort, many governments are finding more indirect – yet equally powerful – ways to influence the private sector development and financing market. In some cases, governments are directly intervening by structuring credit enhancements for riskier projects or offering guarantees to investors. In other markets – particularly in the developing world – we are seeing a rise in the role of multilateral-backed funding.

At the same time, governments are also looking at how they can create a more positive environment for investment

Governments are recognising the need to take a more significant role if they hope to meet their citizens' infrastructure demands.

FOR MORE INFORMATION PLEASE CONTACT:
Paul Foxlee
Head of Infrastructure and Transport
KPMG
pfoxlee@kpmg.com.au
Tel: +61 2 9335 7438



through better regulation. Where the user can pay, at least in part, enhanced regulation is as close as one can come to a silver bullet.

Trend 3 – Pipelines are subdued but will return

With few exceptions around the world (most notably China), the past year has seen a scarcity of infrastructure deals moving through the pipeline. But this does not mean there is any lack of projects in development; in fact planners and project owners have been rather active over the past year thinking through their programs and preparing to take their projects to market while waiting for the right economic, financing, political and social conditions to emerge to support project success.

The upside of this, clearly, is that projects are spending much more time in the planning phase. As a result, the hope is that the next crop of projects that come down the pipeline will – for the most part – be better thought out and ultimately more successful.

Based on our work and experience in the market, I believe that deal flow will improve in the medium-term and that we will start to see a welcome increase in numbers of new projects hitting deal tables.

Trend 4 – Focus moves onto cities

Cities have become the crucibles of a nation's economic activity. As a result, all levels of government – municipal, state/provincial, national and even international – are increasingly focused on creating the right mix of urban infrastructure to drive and support economic growth, and cities are leading the charge.

Out of cities, a new trend is starting to emerge that ties infrastructure investment directly to economic growth. Rather than being driven by investment in individual projects or sectors (an occupational hazard for siloed local governments), a growing number of cities now realise they can maximise their investment and enhance long-run economic returns by carefully considering what project or, more importantly, combination of projects will provide the best bang for their buck.

In the UK in Greater Manchester, for example, city leaders focused on improving connectivity with the suburbs, revitalising the downtown core and attracting tourists through infrastructure development which, in turn, has increased economic activity and tax revenues collectable by government across the region.

Trend 5 – New infrastructure procurement models emerge

As the market matures many project owners and infrastructure planners are starting to rethink their approach to infrastructure procurement. The spread of PPPs around the world is proceeding at a pace which is sometimes alarming. One cannot help feeling that some countries see it is a magic solution that carries no cost rather than simply as a method of procurement.

In more mature markets two trends are emerging. Firstly some of the techniques and methodologies of PPP are being imported to improve public sector procurement. The UK Government's approach to Crossrail and Olympics (projects not suitable for PPPs) are good examples of this. Secondly PPP structures are evolving to address the challenges of the modern infrastructure world: how can investment models be adapted to better share, manage and price risk? How can projects be tendered to ensure value is maximised across multiple assets? The fact that balance sheet treatment is no longer such a driver in some jurisdictions is also a factor.

Andrew Cannane General Manager – Corporate Clients, The Trust Company

FOREIGN INVESTORS LOOK TO AUSTRALIA'S BROWNFIELD ASSETS

Foreign investment into local infrastructure projects is being buoyed by Australia's strong economic position, stable regulatory and legislative frameworks and, now, for the first time in a long time, greater political certainty.

Foreign investors continue to seek stable, cash-flow generating assets that can be held for the long-term, with returns that are not highly correlated to share-markets.

On a relative risk weighting Australia remains an attractive investment destination for foreign infrastructure investors – predominantly pension funds – and the expectation is many will continue to build a presence here over the short-to-medium term.

As Australia's only trustee with licenses to operate in Australia, New Zealand and Singapore, The Trust Company observes the ebb and flow of capital investment into such projects.

If anything, demand for quality infrastructure appears to have increased over the past couple of years. What has not changed is that this appetite is directed towards completed or existing Brownfield projects as investors look for proven assets with sustainable cash-flow.

This trend provides important lessons for government bodies; with foreign investors willing to purchase Australian Brownfield assets, government and semi government will have substantial funds to reinvest in future Greenfield infrastructure projects.

The recent announcement by the NSW Government to sell Port Newcastle and reinvest the proceeds into the development of local light rail and cleaning up the Port and its surroundings demonstrates a positive reinvestment of funds in the future of the local area.

What's holding us back

However, it is not all smooth sailing for foreign investors looking at investing in Australian infrastructure.

Activity is often being suppressed by lengthy tender processes – while Port Newcastle is a positive development, an announcement of the winning bidder is not scheduled until May 2014. Further, resourcing constraints within government agencies and departments responsible for delivering such projects hampers the likelihood of multiple concurrent infrastructure sales in NSW coming down the pipeline anytime soon.

Another inhibitor to foreign infrastructure investment has been a lack of clarity on policy decision-making, although this is hopefully set to change following September's election. With investors needing certainty on any legislative

FOR MORE INFORMATION PLEASE CONTACT:
Andrew Cannane
General Manager – Corporate Clients
The Trust Company
acannane@thetrustcompany.com.au
Tel: +61 2 8295 8100

changes that could impact the profile of an investment, recent amendments, such as the doubling of the Managed Investment Trust withholding tax rate and the proposed changes to the thin capitalisation rules, have the potential to weaken asset values.

But, despite these barriers, the overwhelming sentiment appears to be that as long as there's a steady pipeline of Brownfield infrastructure assets, Australia will continue to reap the rewards of inbound investment.

Where the funds are coming from

Regarded for some time as an infrastructure investment hub, Australia's attractive yields, high quality assets and proximity to Asia are significant drawcards for Canadian pension funds.

Canadian pension funds largely source funds through Defined Benefit schemes so have longer investment horizons than their Australian counterparts; and the elimination on the limits placed on foreign assets that a pension plan could hold relative to their overall assets have combined to drive the desire by Canadian pension funds to invest heavily in Australian infrastructure assets – and it's unlikely to abate anytime soon.

The rising trend of privatising quality public assets in Australia, such as ports, desalination plants and road and rail infrastructure, makes Australia a compelling investment opportunity for these investors.

Australia now ranks as the third largest global destination for Canadian direct investment abroad (excluding tax havens), representing approximately $25 billion, making the two-way investment between both countries around $45 billion.

Some of the most notable investments by Canadian Pension Funds to date have included CPPIB with over A$6.8 billion invested so far; the Ontario Teacher's Pension Plan's acquisition of a long term lease in the Sydney Desalination Plant; and AIMCO's acquisition of Great Southern Plantations.

In total, over $8.5 billion has been invested by Canadian Pension funds with further investments imminent and likely with at least two Canadian pension funds looking to set up offices in Sydney.

Australia's fourth largest trading partner – South Korea – is another jurisdiction with a taste for Australia's core infrastructure assets.

... as long as there's a steady pipeline of Brownfield infrastructure assets, Australia will continue to reap the rewards of inbound investment.

Despite retreating to local investments post GFC, South Korean pension funds have been driving the next wave of investment into Australia over the past 12 months with burgeoning capacity to extend its reach into Australian-based projects.

Capital and deal flow allocation from South Korea is playing a significant role in big ticket infrastructure items, with investors preferring transparent markets that represent sound professional standards and South Korean investors favour low risk, low return investments, and manage exposure by fixing exchange rates and interest rates for extended periods.

South Korea's National Pension Scheme represents the fourth largest pension fund in the world, with the country's growing inflow of pension contributions expected to further boost foreign direct investment into countries like Australia.

So while it's apparent there are a number of impediments to foreign investment into Australian infrastructure, these are far outweighed by the factors driving capital flow by investors such as Canadian and South Korean pension schemes.

These investors continue to demonstrate that strong economic foundations, a consistent pipeline of profitable projects, and stable regulatory and legislative regimes are attractive incentives in ploughing funds for even greater returns.

THE TRUST COMPANY

Brendan Lyon Chief Executive Officer, Infrastructure Partnerships Australia

NATION BUILDING DEFINED: LET'S BE GREATER THAN THE SUM OF THE PARTS

Over the past few decades, Australia's major states have individually developed significant acumen in the financing and delivery of major infrastructure projects. But now, with a new national government committed to infrastructure, a growing investment backlog and relatively high levels of state government debt, it's time to focus anew on how Australia can unite the best efforts of the states to ensure that we are greater than the sum of our parts.

The current public policy debate about the need for long-term, multi-decade strategic infrastructure planning has much to offer in this regard. Real long-term plans naturally allow for an earlier identification of major projects, better enabling governments and the private sector alike to marshal the financial and human resources needed for large projects.

Achieving deeper integration and coordination across states has long been the objective of policymakers. Back in May 2004, Australia's governments formed the National Public Private Partnership (PPP) Forum.

The National PPP Forum was important because it marked a concrete step toward consistency in policy and practice across states; and was designed to allow governments to coordinate and sequence the release of major projects into the market.

In 2007, this desire for greater cooperation evolved into Infrastructure Australia, with important initial steps toward a national project pipeline.

Indeed, the new Federal Government's reforms to Infrastructure Australia (discussed in Mark Birrell's article *Passing the baton: Infrastructure under the new national government*) appear focussed on providing greater certainty about the order and timing of projects. A clearer picture of upcoming project opportunities will likely signal for increased competition, unlock new sources of capital (such as superannuation) and give both business and taxpayers visibility about how and when projects will be advanced.

But even in advance of renewed national leadership, Australia's states are already individually forging ahead with major projects, and in doing so have launched a period of substantial experimentation and reform, to generate the required funding capacity.

The divergent approach to delivering new toll roads in New South Wales and Victoria provides an excellent case study of the renewed experimentation around infrastructure.

Both jurisdictions are facing essentially the same problem; a suite of capital city motorway projects that need to be delivered. The cost and complexity of these projects means that public funding, as well as toll contributions from users, will be required.

For its part, the reference case for NSW's WestConnex suggests a publicly financed solution – while leaving the door open for alternative privately funded options to emerge. Borrowing from the NBN Co model, NSW will use a mixture of Federal grants and state borrowings, secured against tolling revenues, to deliver the project. As with the NBN, this allows NSW to push the liabilities off-budget, a key driver for capital-starved state governments. The Government plans to recycle its investment by selling matured toll revenue, using the released capacity to fund the subsequent stage.

Victoria meanwhile is using an availability-based PPP to deliver the East West Link stage one, preferring the protection and enhanced innovation in price and design that is available through privately financed delivery.

Reforms to the delivery of public health services are an obvious focus, because the costs of health pose the largest drain on government budgets.

As with NSW, Victoria will seek to recycle its investment through securitising tolling revenues as the traffic model matures, with the released capital available for reinvestment.

These two approaches are markedly different, but are united by their dual focus on resolving the best value options to deliver these massive projects – and releasing the government's investment post completion.

With the right structures, other states will have the opportunity to watch and learn from the experience of these two path finding road projects and consider how each approach might suit their own project requirements.

But it is in social infrastructure that we are seeing the most substantial and complex experimentation, as Australia's states each trial new ways to drive efficiencies into their recurrent operating budgets.

Reforms to the delivery of public health services are an obvious focus, because the costs of health pose the largest drain on government budgets.

The need to solve inefficient costs in public health is driving a period of substantial innovation, with the procurement of new hospital projects also being used to inject new delivery models for clinical services.

While the established social PPP model is a proven way to deliver major clinical hospitals, like Sydney's Royal North Shore, Melbourne's Royal Women's, Royal Children's and New Bendigo hospitals, these projects have their private operators limited to the delivery of cleaning, maintenance and other non-clinical services.

Of course, Australia has experimented in this area before and has the opportunity to draw on these experiences.

Western Australia delivered its successful Joondalup hospital through a PPP in the 1990s. That contract included the delivery of clinical services, meaning the private operator employs the doctors and nurses, as well as providing ancillary services. Joondalup has operated well in terms of health outcomes and cost efficiencies, and it's a model that the Western Australian government has replicated recently, through its Midland Health Campus project.

While the eastern states undertook similar experiments in the 1990s, the outcomes were not as positive, and ultimately, most of these projects were returned to the public sector. Indeed, the experience of Victoria's unsuccessful La Trobe Valley and NSW's Port Macquarie Base Hospital projects saw the eastern states vacate the field, retreating to an exclusive focus on traditional public sector delivery of core services.

INFRASTRUCTURE PARTNERSHIPS AUSTRALIA
BUILDING AUSTRALIA TOGETHER

FOR MORE INFORMATION PLEASE CONTACT:
Brendan Lyon
Chief Executive Officer
Infrastructure Partnerships Australia
brendan.lyon@infrastructure.org.au
Tel: +61 2 9240 2051

But the tightening fiscal environment is forcing states to once again look at the learnings from these 1990s projects, as they try to free up recurrent budget capacity to fund capital requirements. And this time, it should be easier, given the substantial inroads toward activity based funding, which make pricing clinical risk easier.

In health, Western Australia is the leader, but NSW and Queensland are racing to catch up and again, are trialling different approaches as pathfinders for the broader reform of public health.

NSW has adopted the WA experience and is seeking to apply a Joondalup-style structure to its own Northern Beaches project in northern Sydney, the first 'full service' PPP to be attempted in New South Wales since the 90s.

With the most challenging balance sheet in the country, the efficiency of public health is a central focus for Queensland's policymakers, with the State seeking to outsource public hospital services to independent providers, wherever it is efficient to do so. The Queensland policy also highlights a move towards innovative models for the provision of entire hospital services, particularly for new hospitals.

As with the road experiments, these represent different approaches: On the one hand, NSW is placing clinical services within the PPP capital structure; while Queensland is seeking to franchise the operation of public hospitals to private providers. But again, as with the road projects, these divergent approaches are united by their focus on driving yardstick competition into public health care.

Past experience suggests that savings of as much as 20-25 per cent are achievable when areas of public monopoly are exposed to competition from a mixed market of providers.

Imagine the infrastructure programme which would become affordable – within the current tax base – if say NSW was able to achieve a 20 per cent saving from the $18 billion it expends on recurrent health costs each year.

The appetite for substantial reform is growing across Australia's capital-starved states; but we must not forget the foundation role that could be delivered through national policy leadership – the incentive that Canberra could create by providing funding tied to reform.

At a minimum, the status quo should evolve to a point where there is formal cooperation between governments to stage the release of major projects to the market, creating programmes of like projects rather than individual, bespoke procurements for each similar asset.

This would allow each government to learn the lessons from other states; and also allow the private sector to have the best teams on hand to bid the increasingly complex social and economic infrastructure projects that Australia needs.

Imagine if the expertise garnered from the Northern Beaches Hospital PPP was able to be applied to other similar projects that follow; or the benefit of new motorway, education and other procurement models to be interrogated, proved up and championed across state borders.

It is an exciting time in Australia's infrastructure market, because states have the confidence and capacity to experiment with established models to seek to stretch limited funding further.

But a continuing trend toward national leadership, consistency and coordination could, of itself, drive further efficiencies and better project outcomes.

Finding the perfect match between private finance and public infrastructure demands a new round of experimentation; and some of these projects will go well and others will go badly. But Australia cannot fill the infrastructure void without a period of entrepreneurial and experimental policy making to free up the funding that is needed.

Nation building usually refers to projects, but it is as much about driving consistency and best practice across the states – and removing regulatory inconsistencies – as it is about a new Snowy Mountains scheme.

Peter Block Partner, Minter Ellison
Andrew Rentoul Partner, Minter Ellison

INNOVATION IN INFRASTRUCTURE – EVERYTHING OLD IS NEW AGAIN

FOR MORE INFORMATION PLEASE CONTACT:
Peter Block
Partner
Minter Ellison
peter.block@minterellison.com
Tel: +61 3 8608 2122

The infrastructure delivery market has shown remarkable resilience and flexibility over the past 35 years. As markets have developed, political and economic thinking has shifted and various parts of the market have failed, participants and techniques have evolved to redress the challenges faced by the infrastructure industry including Governments taking a more expanded role in the delivery of infrastructure assets.

However, with increasing scarcity of debt funding and traditional risk allocation being criticised, Governments are attempting to 'innovate' by retaining the benefit of private sector involvement whilst incorporating a more balanced risk allocation.

1. Government's increased role

Post the Global Financial Crisis, some Governments are again taking an expanded role in projects with considerable success. Examples of successful projects (in which Minter Ellison has been or is involved) include:

- **Finance support** – The Victorian Government providing financing support to the Victorian desalination project and the Queensland Government providing operational phase debt in the Queensland Schools project.
- **Outsourcing of core services** – some Governments (such as NSW and Victoria) are currently considering whether to include core services (such as the custodial services at the Ravenhall prison and clinical services at the Northern Beaches hospital) in social infrastructure PPPs.
- **Traffic demand risk** – some Governments are considering retaining traffic demand risk and putting in place plans to subsequently monetise toll revenue once patronage is proven (see for example the East West Link in Victoria which will be the first road procured by the Victorian Government where it collects tolls since the West Gate Bridge).

However, not all Government interventions are actually new or likely to drive value for money. For example, the NSW Government is planning to directly procure the Westconnex road, thereby retaining construction cost and time overrun risk. This reverses a trend of using commercial structures which minimise Government's exposure to those risks.

It is essential for Governments to maintain a flexible and innovative approach to procuring infrastructure.

2. Recycling of Capital

The sale of public infrastructure assets to recycle capital to invest in further infrastructure will become more prevalent. Recent successful divestments where Minter Ellison played a key role include the long term lease of Botany and Kembla Ports, the franchising of Sydney ferries in NSW and the long term lease of the Port of Brisbane in Queensland.

This trend is likely to continue because it provides Governments with access to additional capital to fund new infrastructure with limited effect on a Government's credit rating. Inevitably there will criticism of public asset divestments. That criticism should to be weighed against the need to utilise public funds in the most efficient way.

It is essential for Governments to maintain a flexible and innovative approach to procuring infrastructure. However, this must be balanced against whether the approaches proposed are truly innovative or merely an adoption of long forgotten and discredited procurement techniques.

MinterEllison LAWYERS

Teresa Dyson Chair, Board of Taxation

THE TRAITS OF AN OPTIMUM TAXATION SYSTEM

Taxation is a necessary feature of good government. It is through the collection of taxes that governments are able to provide necessary services to taxpayers and the community.

However, no taxation system is perfect!

To function efficiently and optimally, a taxation system should demonstrate the traits of clarity, predictability, and proper administration.

Clarity

An optimum taxation system requires clarity of policy; and clarity of legislation.

The policy intent of taxing measures should be clearly stated by government to enable taxpayers and their advisers to understand the context of taxing measures. Clarity in policy enunciation also allows legislative drafters a solid base and clear parameters from which to base the work of drafting tax laws.

Clarity of legislation is critical to enable taxpayers and their advisers to appropriately understand the full implications of tax measures and to comply with them.

Australia's self-assessment regime requires clear policy and clear legislation. The penalties that attach to a failure to comply with tax laws require that the laws themselves are easily interpreted and applied.

Where ambiguity exists, there is a risk that the policy intent is not achieved, or that taxpayers will be exposed to unnecessary costs in compliance or, potentially, to the imposition of penalties in the event of non compliance.

Predictability

Taxation is a cost that is factored into every business decision. Financial modelling required to invest in a particular project or investment necessarily includes assumptions around taxation factors, including tax rate, availability of deductions and the basis of income recognition.

A core feature of a sovereign power is the right of governments to make laws as to taxation. This is a critical

FOR MORE INFORMATION PLEASE CONTACT:
Teresa Dyson
Chair
Board of Taxation
tdyson@deloitte.com.au
Tel: +61 7 3308 7341

feature of good government. However, where the basis for taxation changes significantly, or too frequently, without appropriate transitional arrangements, there is a risk that the tax regime loses this predictability, resulting in investor caution.

More importantly, retrospective changes to legislation have the effect of 'moving the goal posts' to the detriment of investment predictability and of denying taxpayers the ability to appropriately comply with the law at any particular time.

Changes to tax laws should be prospective, unless they seek to address an unintended error that results in taxpayer disadvantage. Exercising the government's sovereign right to impose (and change) laws relating to taxation should be undertaken in the context of clear policy objectives and on the basis of a transparent framework and implementation timeline, giving business time to understand changes and new measures and to appropriately adapt existing business structures, or proposed investments, to the future landscape.

Proper administration

One of the hallmarks of an optimum taxation system is an administration that is clear of bias or influence, consistent in the application of tax laws and transparent in its dealings with taxpayers.

Australia is fortunate to have an administrative regime – the Australian Taxation Office – that has an impeccable international reputation in carrying out its regulatory duties in a manner that is fair and beyond bias or reproach.

The Australian self-assessment regime also requires that the public administrator of tax laws provides clear and timely guidance on the application of tax laws to taxpayers, both on the basis of private taxpayer enquiries and for the public at large. Transparency about the ATO's approach to applying the tax laws to different taxpayers is critical, within the parameters of privacy requirements.

An optimum taxation system is one that enables taxpayers to comply with the laws in an efficient manner. Governments are accountable to the community for the underlying tax policy and economic tax burden through the manner in which tax revenues are spent on public services and in the community. For a taxation system to operate optimally, the traits of clarity, predictability, and proper administration are paramount.

To function efficiently and optimally, a taxation system should demonstrate the traits of clarity, predictability, and proper administration.

This article does not represent the views of The Board of Taxation, but is an individual contribution from The Board of Taxation's Chair, Teresa Dyson.

SPEAKER PROFILES

Hon Mark Birrell
Chairman
Infrastructure Partnerships Australia

Mark Birrell is the Chairman of Infrastructure Partnerships Australia and has deep experience as a non-executive director.

Mark is the Chairman of the Port of Melbourne Corporation. He serves on the statutory board of Infrastructure Australia and is the Chairman of VicHealth. Other roles have included being deputy chairman of Australia Post, national leader of the infrastructure group at Minter Ellison Lawyers and chairman of Evans & Peck Limited. Mark is a Fellow of the Australian Institute of Company Directors. Previously he was Minister for Major Projects and Government Upper House Leader in Victoria, working on successful PPPs and capital works initiatives like CityLink and the Docklands.

Brendan Lyon
Chief Executive Officer
Infrastructure Partnerships Australia

Brendan Lyon is the Chief Executive of Infrastructure Partnerships Australia, Australia's peak infrastructure body.

After roles in government and the private sector, Brendan joined the organisation in early 2006. He initially served in IPA's policy and research team and later, led the organisation's media and government relations functions. He was appointed in early 2008 to head the organisation.

Brendan serves on a range of boards and committees, including the Board of Transport for NSW (formerly the NSW Department of Transport); the ACCC's Infrastructure Regulation Advisory Committee; the Commonwealth Government's High Speed Rail Steering Group; the Commonwealth Government's National Urban Policy Forum; and the Queensland Premiers Business Advisory Group. He also served as a member of the Commonwealth Government's Infrastructure Finance Working Group.

Brendan was appointed as a visiting Associate Professor at the Sydney Business School, and holds a Masters of Business Administration with Distinction.

Brendan has authored and contributed to a large number of research and policy papers dealing with infrastructure funding, financing and sectoral reforms.

Hon Warren Truss MP
Deputy Prime Minister
Minister for Infrastructure
and Regional Development

The Hon. Warren Truss MP is Deputy Prime Minister of Australia and the Minister for Infrastructure and Regional Development.

He is also the longest serving federal leader of any political party in Australia today, becoming Leader of The Nationals in 2007.

A third generation farmer from the Kumbia district near Kingaroy in Queensland, Mr Truss first won his seat of Wide Bay in 1990. He was a Minister in the Howard Government for 10 years, serving as Minister for Customs and Consumer Affairs in October 1997, and a year later, Minister for Community Services. In July 1999 Mr Truss became the Minister for Agriculture, Fisheries and Forestry, where he served for six years. He became Minister for Transport and Regional Services in July 2005 and, in September 2006, was appointed Minister for Trade.

Before entering Parliament, Mr Truss was a Kingaroy Shire Councillor (1976 to 1990), including seven years as Chairman. He served as President of the Burnett District Local Government Association and as Chairman of the Fraser Coast-South Burnett Regional Tourism Board. He was Deputy Chairman of the Queensland Grain Handling Authority and a member of the State Council of the Queensland Graingrowers Association.

Mr Truss is also former State and National President of the Rural Youth Organisation and President of the Lutheran Youth of Queensland.

At the 2013 federal election, Mr Truss led The Nationals to the Party's best electoral result in 30 years.

SPEAKER PROFILES

Hon Mike Baird MP
Treasurer of New South Wales;
Minister for Industrial Relations

Following the election of the NSW Liberal and Nationals Government on 26 March 2011, Mike Baird was appointed Treasurer of NSW and in September 2012, he gained the Industrial Relations portfolio. Mike had served as Shadow Treasurer since December 2008 and previously as Shadow Minister for Energy, Finance and Youth Affairs.

Mike was elected Member for Manly in 2007 after an 18-year banking career incorporating corporate banking, securitisation, debt capital markets and project finance in Australia, London and Hong Kong.

Career highlights include managing corporate finance transactions across a range of industries for Deutsche Bank and Head of Originations, debt capital markets in London for the NAB.

Prior to his election to Parliament, Mike was Head of Institutional Banking for HSBC in Australia and New Zealand.

Roger Black
Project Director,
Projects Queensland
Queensland Treasury and Trade

Roger Black is a Project Director at Projects Queensland and also a member of Infrastructure Queensland, the body established by the Deputy Premier to advise on issues relating to Infrastructre in Queensland.

Roger has been active in the financial and commercial advisory services sector for many years and he has worked wth a a wide variety of clients in both the public and private sectors and those clients have been in Southern Africa,the UK, the US and Australia where he has been active in the Corporate Finance sector for the past 12 years.

His transaction advisory experience includes a strong focus on infrastructure project analysis, business case development, project procurement and procurement options analysis (including PPP and PFI, alliance and traditional procurment options), project and corporate finance, financial modelling and the development, evaluation and delivery of social and economic infrastructure projects.

Roger has been an active supporter and promoter of IPA.

Swati Dave
Executive General Manager,
Specialised Finance
Product & Markets
National Australia Bank

Swati is the Executive General Manager of Specialised Finance, Product & Markets at National Australia Bank. She leads a specialist team with responsibility for providing advice and financing solutions across the infrastructure, energy & utilities and resources sectors in Australia, the United Kingdom, Hong Kong and Singapore.

Swati has over 25 years' banking and finance experience encompassing, retail banking, corporate and institutional banking, project and infrastructure finance, project advisory, private capital, strategy and business development.

Prior to joining nabCapital in 2005, Swati held a number of senior roles at Deutsche Bank, AMP Henderson Global Investors, Bankers Trust and Westpac.

Swati holds a Bachelor of Commerce degree from Newcastle University and is a Graduate of the Australian Institute of Company Directors.

She is a Director of Australian Hearing and the Chair of its Audit and Risk Committee.

Swati is married and has three adult children.

Philip Garling
Non-Executive Director
Networks NSW

Phil is a Non Executive Director of the 3 Networks NSW electricity distribution businesses: Ausgrid, Endeavour Energy & Essential Energy.

He has 25 years' experience in Infrastructure Construction, Development, Operations and Investment Management, most recently as Global Head of Infrastructure at AMP Capital Investors. He has also been Chief Executive Officer of Tenix Infrastructure and prior to that he was a long term Senior Executive at Lend Lease Corporation culminating in his role as Chief Executive of Lend Lease Capital Services (the Development Capital, Infrastructure Development and Project Finance arm of Lend Lease).

Phil was a long term director of Melbourne Airport and foundation Chair of the Duet Group He has a Bachelor of Building from the University of NSW and has completed the Advanced Management Program at the Australian Institute of Management and the Advanced Diploma at the Australian Institute of Company Directors. He is a Fellow of the Australian Institute of Company Directors, Australian Institute of Building and Institution of Engineers, Australia.

Philip's other current non executive directorships are Australian Renewable Fuels (Chairman), Downer EDI Limited, Charter Hall Limited and Water Polo Australia Limited.

Paul Goldsmith
Project Director, WestConnex,
Sydney Motorways Project Office
Roads and Maritime Services

Since October 2012, Paul has led the Sydney Motorways Project Office, with responsibility for delivering the business case for WestConnex, Australia's largest transport infrastructure and urban renewal project.

Paul has extensive experience in the development and delivery of Public Private Partnerships (PPP) having held the position of General Manager, Motorway Projects with Roads and Maritime Services for the past six years, successfully negotiating PPP upgrade agreements with the private sector partners for both the M2 Upgrade and M5 West Widening projects.

Prior to this Paul spent six years as senior project manager for the procurement and delivery phase of the Cross City Tunnel. His early career was spent on road and rail infrastructure projects in the UK, including a significant period working with London Underground Limited.

Paul is a chartered civil engineer with nearly 30 years experience in the development, procurement and delivery of urban infrastructure projects in Australia and the United Kingdom.

He lives in Sydney with his family and enjoys kayaking, playing soccer (against other mature gentlemen) and coaching his daughter's soccer team.

Peter Harris AO
Chairman
Productivity Commission

Peter Harris is Chairman of the Productivity Commission. Mr Harris has previously served as Secretary of the Commonwealth Department of Broadband, Communications and the Digital Economy, and the Victorian Government agencies responsible for Sustainability and the Environment; Primary Industries; and Public Transport.

He has worked for the Ansett-Air New Zealand aviation group and as a consultant on transport policy. He has also worked in Canada on exchange with the Privy Council Office (1993-1994). His career with the government started in 1976 with the Department of Overseas Trade and included periods with the Treasury; Finance; the Prime Minister's Department and Transport; and he worked for two years in the Prime Minister's Office on secondment from the Prime Minister's Department as a member of then Prime Minister Bob Hawke's personal staff.

In 2013, he was made an Officer of the Order of Australia 'for distinguished service to public administration through leadership and policy reform roles in the areas of telecommunications, the environment, primary industry and transport'.

He has a degree in Economics from the University of Queensland (1975) and is married with two children.

Adrian Hart
Senior Manager,
Infrastructure and Mining
BIS Shrapnel

Adrian Hart is a Senior Economist with BIS Shrapnel, and Senior Manager of the company's Infrastructure and Mining Unit. BIS Shrapnel is the leading provider of market research, industry analysis and forecasting services in Australia, and a construction sector specialist.

Adrian joined BIS Shrapnel in the late 1990s, and has worked across both Economics and Infrastructure and Mining Units within the company. In 2007, he became Senior Manager of the Infrastructure and Mining Unit. The Unit undertakes analysis and forecasts for the civil infrastructure construction, mining and maintenance markets across Australia.

Apart from managing a range of regular outlook reports for the civil construction and mining industries, Adrian is also widely involved with privately commissioned research studies and consulting exercises. This includes the analysis of construction costs and development of escalation forecasts, workforce capability analyses, unique BIS Shrapnel estimates and forecasts of activity across all detailed civil construction subcategories, and the development of demand forecasting models for companies with links to the construction and mining industries.

Adrian also undertakes presentations and workshops with senior management of organisations operating in the engineering construction, maintenance and mining sectors, discussing the outlook and implications of BIS Shrapnel analyses and forecasts for business planning and strategy.

Lance Hockridge
Managing Director
& Chief Executive Officer
Aurizon

Lance Hockridge became Managing Director & CEO of Aurizon in July 2010 to lead the company through what would be the largest IPO in Australia in a decade. He has guided the transition to private ownership and Aurizon's listing as a top 50 ASX company after 145 years as a government owned and operated railway.

Lance has more than 30 years' experience in the transportation and heavy industrial sectors in Australia and the United States with BHP and BlueScope Steel. At BHP Billiton Limited, Lance was a member of the leadership team that led BlueScope Steel's successful demerger from BHP and subsequent listing on the ASX. In 2005 Lance was appointed President of BlueScope Steel's North American operations where he led a major turnaround in safety, production and financial performance.

From 2007 until 2010, he was Chief Executive Officer of QR Limited which was split to form Aurizon and the passenger-focussed Queensland Rail that has remained in government ownership.

Lance is leading a major transformation program at Aurizon aimed at delivering world-class safety, customer service excellence and superior commercial capability.

Lance lives in Brisbane where Aurizon is headquartered.

SPEAKER PROFILES

Ken Mathers
Chief Executive Officer
Linking Melbourne Authority

A Civil Engineer, Ken has had a long career in Victorian road infrastructure planning and delivery since commencing with the Country Roads Board in the 1960's. Working with VicRoads involved project management of some of Victoria's largest road projects including Melton Bypass, Hume Freeway duplication, the Western Ring Road, upgrading of Monash Freeway and pre-construction planning for CityLink.

He joined Melbourne CityLink Authority in 1995 as Director, Engineering and Operations for its function of facilitating CityLink. He participated in the bid evaluation and the oversight of project development until completion in 2000.

After working as a private consultant, he returned to Government in 2003 as Chief Executive Officer of Southern and Eastern Integrated Transport Authority (SEITA), the State Government agency responsible for the facilitation of EastLink – then Australia's largest Private Public Partnership (PPP) road infrastructure project.

LMA has since been planning and procuring the 27km Peninsula Link, the first PPP – Availability road project in Australia. Delivered by Southern Way and their design and construct contractor, Abigroup, the project was opened to traffic in January 2013.

In 2012 LMA assisted the Department of Transport with the development of the business case for East West Link, and has now commenced the statutory planning process for the eastern section from the Eastern Freeway to CityLink and the extension to the Port of Melbourne. LMA is now commencing the procurement phase.

Lindsay Maxsted
Chairman
Transurban Group

Lindsay is Chairman, Transurban Group; Chairman, Westpac Banking Corporation; Director of BHP Billiton Limited and BHP Billiton plc; and Managing Director of Align Capital Pty Ltd. He is also a Director of Baker IDI Heart and Diabetes Institute, a Member of the Advisory Board of Coolmore Australia, and a Fellow of the Australian Institute of Company Directors.

Lindsay was formerly a Partner at KPMG and was the CEO of that firm from 1 January 2001 to 31 December 2007.

His principal area of practice prior to his becoming CEO was in the Corporate Recovery field managing a number of Australia's largest insolvency/workout/turnaround engagements including Linter Textiles (companies associated with Abraham Goldberg), Bell Publishing Group, Bond Brewing, McEwans Hardware, and Brashs.

He is also a former Director and Chairman of the Victorian Public Transport Corporation.

Nicholas Moore
Chief Executive Officer
Macquarie Group Limited

Nicholas was appointed Chief Executive Officer of Macquarie Group in May 2008.

Macquarie Group is a global financial services provider, with more than 70 office locations in 28 countries and $A347 billion in assets under management. It has institutional, corporate and retail clients and counterparties around the world.

Macquarie has a uniquely diversified business and has established leading market positions as a global specialist in a wide range of sectors, including resources, agriculture and commodities, energy and infrastructure, with a particularly deep knowledge of Asia-Pacific financial markets. Its diverse range of services includes corporate finance and advisory, equities research and broking, funds and asset management, foreign exchange, fixed income and commodities trading, lending and leasing and private wealth management.

Nicholas joined Macquarie in 1986 and led the global development of its advisory, funds management, financing and securities businesses. He is now leading the continued global growth of Macquarie Group as it builds on its position as one of Asia-Pacific's leading financial services providers.

Nicholas completed his Bachelor of Commerce at the University of NSW in 1980 and his Bachelor of Laws the following year. He was admitted as a Solicitor of the Supreme Court of NSW in 1982 and is a Fellow of the Institute of Chartered Accountants.

He is also Chairman of Police and Community Youth Clubs NSW Ltd, Chairman of the University of NSW Business School Advisory Council and a Director of the Centre for Independent Studies.

Bruce Munro
Managing Director
Thiess

Bruce Munro was appointed Thiess Managing Director in September 2011 after joining the Thiess Group in 1986.

A civil engineer with 36 years' experience in the construction and mining industries in Australia, South East Asia and India, he has held a number of senior positions within the company. These have included President Director of PT Thiess Contractors Indonesia – a role he held for eight years after his appointment in 1999. He was appointed Executive General Manager Asia August 2007 and in January 2010 he took on the role of Thiess' Chief Executive Mining.

Bruce has a long history with Thiess' parent company, Leighton Holdings, having worked for both Leighton Asia and Leighton Contractors.

He is a Non-Executive Director on the board of Sedgman – a leading provider of minerals processing and associated infrastructure solutions to the global resources industry. Bruce is also on the Boards of the Minerals Council of Australia, Australian Constructors Association, Roads Australia and Queensland Chair of the Australian Indonesia Business Council.

Dr Kerry Schott

Kerry Schott is Chairman of the Moorebank Intermodal Company Ltd, a Director of NBN Co, a Director of the TCorp Board in NSW, a member of the Infrastructure Australia Board, Patron and Board member of Infrastructure Partnerships Australia and a member of the Whitlam Institute Board.

Kerry is the Project Director for the NSW Treasury managing the current sales of the government owned electricity generating plants. Kerry was previously the Project Director of the successful sale and lease of the Sydney desalination plant. She completed her role as CEO of the Commission of Audit for the NSW Government early in 2012. Previously she was Managing Director and CEO of Sydney Water from 2006 to 2011.

Kerry spent 15 years as an investment banker, including as Managing Director of Deutsche Bank and Executive Vice President of Bankers Trust Australia. During this time she specialised in privatisation, restructuring, and infrastructure provision.

Kerry holds a doctorate from Oxford University (Nuffield College), a Master of Arts from the University of British Columbia, Vancouver and a Bachelor of Arts (first class Honours) from the University of New England.

Rodd Staples
Project Director,
North West Rail Link
Transport for NSW

Rodd Staples heads the project team which will deliver the biggest addition to the Sydney public transport network since the Sydney Harbour Bridge was built almost a century ago.

As an engineer growing up in Sydney's south, Rodd has worked in the fields of transport and infrastructure planning for nearly two decades – across Australia and in both the public and private sectors.

His qualifications in engineering and finance provide the strong foundations required to deliver a project on the scale of the North West Rail Link – a 23km extension to Sydney's rail network and the biggest rail tunnelling project ever undertaken in Australia.

"The opportunity to work on a city-transforming project with such a dedicated team is a privilege and one that I am very proud of," Rodd says.

"We will be delivering a product with the customer at its focus which will transform the growing North West region of Sydney."

Rodd is a former Deputy Director General at the Department of Transport, overseeing the NSW Government's transport capital works projects.

James Stewart OBE
Chairman, Global Infrastructure
KPMG

James joined KPMG in May 2011. He is Chairman of KPMG's Global Infrastructure practice. Prior to joining KPMG, James was based in the Treasury as the CEO of Infrastructure UK and previously was CEO of Partnerships UK for ten years. Before that James spent fourteen years at Hambros and Société Generale.

James has been involved in the Infrastructure and PPP markets for over 20 years and now spends his time advising Governments and private sector companies around the world.

DIRECTORY LISTING

INFRASTRUCTURE PARTNERSHIPS AUSTRALIA BUILDING AUSTRALIA TOGETHER	**Infrastructure Partnerships Australia** Level 8, 8-10 Loftus Street, Sydney NSW 2000	Phone: +61 2 9240 2050 Email: contact@infrastructure.org.au Web: www.infrastructure.org.au
MACQUARIE	**Macquarie Capital** No 1 Martin Place, Sydney NSW 2000	Phone: +61 2 8232 3333 Web: www.macquarie.com
Leighton Holdings	**Leighton Holdings** 472 Pacific Highway, St Leonards NSW 2065	Phone: +61 2 9925 6666 Email: leighton@leighton.com.au Web: www.leighton.com.au
nab	**National Australia Bank** Level 25, 255 George Street, Sydney NSW 2000	Phone: +61 2 9237 9549 Web: www.nab.com.au
transurban	**Transurban** Level 3, 505 Little Collins Street, Melbourne VIC 3000	Phone: +61 3 8656 8900 Email: corporate@transurban.com Web: www.transurban.com
KPMG	**KPMG** 10 Shelley Street, Sydney NSW 2000	Phone: +61 2 9335 7000 Web: www.kpmg.com.au
KREAB & GAVIN ANDERSON WORLDWIDE	**Kreab Gavin Anderson** Level 4, 151 Macquarie Street, Sydney NSW 2000	Phone: +61 2 9552 4499 Web: www.kreabgavinanderson.com
MinterEllison LAWYERS	**Minter Ellison Lawyers** Aurora Place, 88 Phillip Street, Sydney NSW 2000	Phone: +61 2 9921 8888 Web: www.minterellison.com
State Government Victoria AUSTRALIA	**Victorian Government** Department of State Development, Business and Innovation Department of Treasury and Finance	Web: www.dsdbi.vic.gov.au Web: www.dtf.vic.gov.au

8th Floor, 8-10 Loftus Street
Sydney NSW 2000
T +61 2 9240 2050 **F** +61 2 9240 2055
www.infrastructure.org.au

INFRASTRUCTURE
PARTNERSHIPS
AUSTRALIA

BUILDING AUSTRALIA TOGETHER