

## **A national approach to PPPs**

*The importance of creating a 'single market' appearance to gain  
global attention: Australia's experience*

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## **Introduction**

Thank you for the invitation to address today's conference.

I am delighted to be here in Toronto – a place that is often spoken of in very similar terms to my home city of Melbourne as being one of the world's most liveable cities and one of the world's most successful multicultural cities. I visited here briefly in 2001 and addressed the Canadian PPP Council and I am delighted to be able to return to share with you Victoria's and Australia's experience of PPPs (as we call them) or P3s (as you call them).

Our experiences are worth sharing – not only because Victoria is now recognised as a leading and sophisticated PPP market, but also because the similarities between Australia and Canada mean that we can usefully compare and exchange our experiences, information and knowledge.

We do have a great deal in common – and there has long been a great sense of friendship, understanding and trust between our two countries.

For a start, we are both countries with populations that are relatively small compared to our geographic size – Australia has a land mass of around 8 million square kilometres and a population of around 20 million; Canada has an area of around 10 million square kilometres and a population of around 32 million.

And that means we have some big distances to cover when it comes to infrastructure, such as road and rail transport – and some difficult problems to overcome when it comes to delivering services, such as health and education.

We also share a similar federal system of government – made up of six states and two territories (in Australia's case) and 10 provinces and three territories (in Canada's case). As I'm sure I don't need to tell you that also creates its own particular problems and tensions.

We have many other similarities – and that means we can identify with and understand the challenges each of us face in delivering infrastructure over the next 10 to 20 years.

And like Canada, Australia is increasingly looking to innovative infrastructure solutions such as PPPs to help to overcome these difficulties, to deliver value for money in developing our infrastructure – and to make sure we have the right infrastructure in place to meet the economic, social and environmental challenges ahead.

There is no doubt that in Australia and Canada respective governments will be spending more on infrastructure in the decade ahead than in the decade past. The same is true of countries right around the world including of course China and the Asia Pacific. The coming decade will be a decade of infrastructure – and in this decade governments around the world will seek a variety of project delivery options to deliver best value for money for the communities they represent. PPPs will be a crucial part of the infrastructure equation.

### **Infrastructure and PPPs in Victoria**

In Australia, it is the most populous States that are pushing the PPP process along – and my home state of Victoria is leading that push.

Just to give you one point of comparison: Victoria has around 5 million people and a GDP the size of Ireland or Israel. If we were part of Canada, we would rank as the 3<sup>rd</sup> biggest province behind Ontario and Quebec.

Our budget sector is strong and AAA credit rated. Over the last 5 years we have more than doubled our expenditure on capital works. Over the next 5 years we will invest a further \$20 billion in capital works across the government sector and various public authorities.

That's a very substantial level of investment for an economy of our size – an investment we see as critical to the future growth and success of our State and to Australia's long-term prospects.

Those of you who travel to Melbourne next March for the Commonwealth Games (a sensational event at which Canada will field the second largest team) will see the results of that investment – in major new sports facilities, the new Athlete's Village, new arts and cultural facilities, and the major redevelopment of Melbourne's inner-city waterfront and Docklands precinct.

Docklands is a great example of a successful public private partnership first announced in 1991. To date Docklands has attracted almost \$4 billion of private sector investment leveraged off around \$150 million from the State of Victoria. On completion Docklands will have attracted around \$10 billion of new investment against a net government spend of around \$100 million. The ratio of private to public for Docklands will be around 100:1 compared with London Docklands of 3:1. Dockland's success is due to a number of factors including an agreed vision; planning certainty; as of right approvals; infrastructure 'just in time' and a one-stop shop approval authority.

In Melbourne you will also see some other major PPP projects under construction, including the \$300 million Women's Hospital and the \$2.5 billion EastLink road project – Australia's largest road construction project.

Over the last few years we've been investing heavily in the full range of infrastructure projects, including hospitals and schools, freight and transport infrastructure, major water projects and science, technology and innovation infrastructure.

And we've learned some lessons along the way.

Perhaps most importantly, we've learned the value of not being locked into one model of delivery when it comes to large-scale infrastructure projects.

In the late 1980s, the key driver for PPPs in Victoria was to finance infrastructure off the government balance sheet. In the second half of the 1990s, the drivers were private sector growth and efficiency, coupled with maximum risk transfer. Both these approaches led to some unsustainable contracts – and some pretty unsatisfactory outcomes for both government and the private sector.

Five years ago, we implemented a new PPP policy – called *Partnerships Victoria* – and today, we base our decisions primarily on value for money, underpinned by a strong commitment to government retention of core services and the application of a rigorous public interest test.

The value-for-money approach provides for a variety of partnership models – and that flexibility means that Victoria is now leading Australia in the development of a national market for public private partnerships in infrastructure.

PPPs now average around 10% of our annual capital asset investment, ranging anywhere from 5% to 20% depending on the particular year. We have 14 very diverse projects underway that will create assets for our State worth around \$4 billion, and there's another 4 projects in the market or approved for PPP delivery worth more than \$800 million.

What's more, we have used our experience to develop groundbreaking guidelines and processes that have been adopted in one form or another by most Australian jurisdictions – and used as reference materials in some overseas countries as well.

In effect, Victoria's leadership on PPPs has been responsible for a high level of consistency across the Australian PPP market – and because we have been ahead of the other States, we were the first to appreciate the substantial benefits from Australia developing a uniform national market for PPPs.

## **A national approach to PPPs**

That's why – in late 2003 – the Victorian Government wrote to all other Australian governments proposing a National Public Private Partnerships Ministerial Forum.

We had a positive response from the other Australian States and Territories to that idea – and the result is that we now have a very active National PPP Forum made up of senior Ministers from all States, Territories and the Federal government.

The rationale for the Forum is simple: we want to create a critical mass of projects that will build a national PPP market – and we're moving towards that goal by taking action across several fronts.

- First, we are promoting consistent approaches to developing projects across all States and Territories – including standardised risk allocation models, tendering processes, interactive bidding processes and so on.
- Secondly, we are developing better coordination, information sharing and support among the States, Territories and private industry.
- Thirdly, we are providing a forum for resolving key industry concerns.
- Finally, we are aiming to develop public sector staff who are highly skilled and experienced in PPPs – and we're doing that through training programs, sharing staff across jurisdictions and knowledge transfer across projects and jurisdictions.

The fundamental aim of the exercise is to generate greater investment in the infrastructure Australia will need over the next two to three decades.

For the public sector, that means improving value for money opportunities, generating a stronger market of providers and ensuring the more effective delivery of PPP projects.

From the private sector's perspective, the Forum is delivering benefits in the form of greater consistency and certainty across the different States and Territories, more streamlined bidding processes and much better coordination of the pipeline of projects entering the market.

In a relatively short time, the Forum has recorded quite a few successes:

- For a start – and this is a very important point – all jurisdictions in Australia are now operating off the same page. Some States were well ahead of others when the Forum first started meeting – but now we have all States and Territories committed to PPPs and to the National Forum. That, in itself, is a pretty powerful message to send to potential investors.

- We've also agreed on important technical issues and are pursuing initiatives to reduce bidding costs and develop standard contract clauses Australia-wide.
- We also now publish a regular list of the pipeline of PPP projects across Australia – giving forewarning to the market of current and future projects and indicating the sectors in which new business opportunities are likely to arise.

The simple act of pulling together that list that has given us – for the first time – a clear picture of Australia's national PPP market: a significant development in itself.

And what that pipeline shows is that Australia is now the second most developed PPP market in the world – after the United Kingdom – with a market currently worth around \$20 billion: \$10 billion in projects already contracted; around \$4 billion in projects currently in the market; and more than \$6 billion of projects being considered for PPPs.

So we've already had some very positive outcomes from adopting this national approach.

What's more, simply by creating the means for a national discussion on PPPs, the Forum is also generating other interesting results and spin-offs.

For a start, it has encouraged the Federal government to commit to actively pursuing PPPs at the national level, including an undertaking to carry out an assessment of PPP options for all infrastructure projects above \$100 million dollars.

There has also been more general discussion about Australia's infrastructure requirements and is giving us a much clearer indication of where our big infrastructure needs are likely to be in the future, including at the local government level.

It has also raised the possibility of cooperative large scale infrastructure projects between two or more States or the Federal government and the States – in areas such as transport, power and water infrastructure.

The Forum is also generating debate about the need to change our outdated system of distributing money between the State and Territories – an issue that I understand you also grapple with here in Canada.

## **Future challenges**

The National PPP Forum has only been up and running for two years – so we still have some way to go in achieving a truly national approach to PPPs in Australia.

In Victoria, we're certainly keen to push the agenda along – and we're working with the private sector on issues such as:

- translating the standard principles into contractual clauses;
- managing bid costs, particularly legal costs;
- sending better signals to the market on bid evaluation priorities; and
- working with local government to address PPPs in that sector.

Much of that work will find its way to the National Forum – and that is another benefit of the Forum: it has created a mechanism through which the best ideas being generated at State level can find their way into a national dialogue with industry and investors.

If there is one thing Victoria has learned from our experience with PPPs, it's that no State or Territory government can go it alone. Governments need to continually engage in debate and discussion about the best way to improve the PPP industry and get the best results for our communities – and that debate needs to take place at the national level amongst governments but also with the private sector as well.

In common with Canada, Australia has a lively, ongoing debate about the merits of PPPs – and it can just take an issue with one project to make that debate very public. That's where a solid policy framework, based on value for money, is critical. Over time, the policy framework proves PPPs can work effectively and stakeholders gain increasing confidence in the results – this gradually makes the debate more rational. It also helps to have strong advocates from industry bodies that can put forward convincing public policy and commercial arguments for why PPPs make sense. Still, this debate is evolving in Australia and it takes constant engagement to ensure Government's side of the debate is heard.

Looking to the future, Australia faces some significant challenges over the coming decades – and we are going to need substantial investment in infrastructure to meet those challenges. In my view, PPPs will play a growing and increasingly important role in addressing our infrastructure requirements – and that means attracting investors in an increasingly competitive marketplace.

Through the National PPP Forum, Australia is taking action to make sure that we match the growing maturity and sophistication of the PPP industry – and that we send a positive signal that we are committed to PPPs and committed to smoothing the path for potential investors.

Our experience has shown us that such signals cannot be sent from a fragmented and uncoordinated market with differing standards, rules and processes: it requires a national approach and national leadership. That might seem blindingly obvious, but in federal systems such as Australia's and Canada's, achieving a truly national response can be a complex and frustrating exercise.

And that is essentially what the National Forum is about – it is about using the best features of our federal system to deliver national leadership and national coordination on PPPs.

Put simply: we are making sure that our federal system becomes an advantage in attracting PPP investment, and not an impediment.

We are still learning as we go – but I have absolutely no doubt that the work of the National PPP Forum has already significantly boosted Australia's attractiveness to potential investors. Just as importantly, I strongly believe that the creation of a national market for PPPs will prove critical in delivering the infrastructure Australia needs to meet the challenges ahead.

Thank you.