From: Edghill, Duncan
To: McKernan, Karen
Subject: RE: Input on PPPs for Corro from EPD
Date: Wednesday, 7 January 2015 10:34:00 AM
Attachments: image001.png
image002.png

Karen,

The use of private finance in a PPP structure is very attractive to the Territory and reduces overall project costs, as the private financial arranger:

- Is a key driver of reducing costs bid by each bidding consortia;
- Bears significant project risks. The Territory does not commence service payments to the successful consortia until the system is built and operational;
- Provides substantial risk management and scrutiny within the PPP structure – aligning the interests of the consortia with the Territory; and
- Is a key party in forming consortia for the procurement process

Kind Regards
Duncan

Duncan Edghill | Executive Director - Commercial
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From: McKernan, Karen
Sent: Wednesday, 7 January 2015 9:00 AM
To: Edghill, Duncan
Subject: FW: Input on PPPs for Corro from EPD

Dear Duncan,

I have been asked to coordinate some words for a request from EPD, relating to PPPs. Sophie Kennedy in the comms area has provided the following but has suggested that you may be able to provide some more specific words around the borrowing issue raised in point 8 below.

I would appreciate any input you are able to provide on this. I need to get back to EPD tomorrow, so if possible, could I get something from you ASAP today please?

Happy to discuss if needed.

Thanks
Karen

Karen McKernan | Governance and Operations

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From: Kennedy, Sophie
Sent: Tuesday, 6 January 2015 4:53 PM
To: McKernan, Karen
Cc: Barton, Kim
Subject: FW: Input on PPPs for Corro from EPD

Hi Karen,

Kim asked if I could provide you with some words on PPP's to help out with question 7 &8.

Please see below information that could be used to answer both (approved by Kim):

A PPP was selected following discussions with industry, comparisons to other light rail projects and the receipt of expert advice. It is a sensible way to bring together the best of the private and public sectors to ensure the project is delivered to time and budget.
This approach means that the ACT Government does not begin paying for the light rail service until it is fully operational to the Government's specified standards. Once the system is up and running, the Government will start making regular payments over time. This means that the cost of the infrastructure is spread over future decades. The will be for around 20 years following construction completion.

The key benefit of a Public Private Partnership is that the project risks are passed to the private sector. The ACT Government has not delivered this type of infrastructure before and attempting to do so without previous experience would present significant risks in delivery and cost.

By packaging all the project elements and interfaces into one bundle, it increases the size of the project and the attractiveness to the market. this consequently attracts more bidders and competition.

Under the availability PPP delivery model, it is typical that government does not pay up front for the construction of the light rail infrastructure. The initial investment is committed by the consortium selected to deliver, operate and maintain the system. On successful delivery, government will then make regular payments (referred to as availability or service payments) to the consortium. The Government will pay for capital metro via quarterly availability payments commencing from the time the project is completed and commences operation.

The ACT Government aims to attract the world's best practice in terms of design, construction and operations of light rail facility through the PPP approach.

Following the Expressions of Interest phase from 31 October to 19 December, four private sector consortia have submitted an EOI for Canberra's light rail project. This is a great result and demonstrates the private sector's high level of interest in the project and confidence in conducting business with the ACT Government.

The project has attracted interest from local, national and international companies. Expressions of Interest were received from:

- Canberra Metro
- ACTivate
- Connecting Canberra
- CANGO

The above information goes someway to answering question 8, but not totally. I would suggested seeking some further information from Duncan Edghill (CMA's Executive Director of Commercial) as he might be able to provide something more specific.

Please let me know if you need any further information.

Cheers

Sophie

From: Barton, Kim
Sent: Tuesday, 6 January 2015 2:29 PM
To: Kennedy, Sophie
Subject: FW: Input on PPPs for Corro from EPD

Hey Sophie,

Can I pass this request to you? Hopefully it will fall out of the Standard Words work – let me know if you need any support and we'll get Kathy to help.

Cheers

K

From: McKernan, Karen
Sent: Tuesday, 6 January 2015 2:23 PM
To: Barton, Kim
Subject: Input on PPPs for Corro from EPD

Hi Kim,

As discussed, I would appreciate input on points 7, 8 (highlighted) and any other info regarding the public-private partnerships, that addresses the other issues raised in the below email.

I need to get this cleared and back to EPD on Thursday so would appreciate your input by noon Wednesday if possible.

Thanks very much.

Karen McKernan

Karen McKernan | Governance and Operations

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From: [redacted]
Sent: Sunday, 4 January 2015 12:46 PM
To: GENTLEMAN
Subject: Canberra light rail

Dear Mr Gentleman

I would like to draw your attention to Paul Malone's article in the Canberra Times on December 28. I agree whole heartedly with his comments. In particular, from my reading on the issue, I believe going to the light rail rather than dedicated bus lanes to be a poor economic management and will slow travel times rather than speed them up for anyone having to use buses and light rail as discussed by Mr Malone.

The light rail is a poor economic investment for the following reasons:

1 a dedicated bus lane between Gungahlin and civic is cheaper – so lower sunk costs, interest bills
2 dedicated bus lanes provide faster travel times for buses
3 dedicated bus lanes provide remove the need to change transport modes and avoid incurring the travel delays in making connections
4 dedicated bus lanes provide the flexibility to change routes depending on patronage demand across Canberra
5 dedicated bus lanes are equally likely to deliver the economic benefits of higher land values and support higher density living expected from light rail.
6 dedicated bus lanes can be upgraded to light rail when demand dictates that this is the better option
7 public-private partnerships are fraught with risk for the tax payer, especially the guarantee revenue to the private project operators. While PPPs may be the most effective means of building new infrastructure they may not be the most cost effective when income guarantees and borrowing and maintenance costs are taken onto account over a 30 to 50 years life of the project. The whole of life costs of PPPs where key areas omitted from the Infrastructure Partnerships Australia Report analysis.
8 The ACT government can borrow money at lower cost than the private sector. If you do intent to press ahead with the Light Rail project why doesn't the ACT government borrow the money and then lend tit to the project contractors and pocket a margin on the money to underpin.

A recent European Commission Report notes that a PPP, in most of its forms, does not eliminate a public budget fiscal constraint; the state will eventually need to pay. For as long as the capital markets are prepared to overlook long-term consequences, the short-term gain can allow a state with a tight budget and weak fiscal position to bring forward investments (perhaps expecting the route of later renegotiation and rebalancing of those projects which prove unsustainable for the concessionaire).

In summary, an asset can be kept off the Government budget and off Government debt in cases where the construction risk, the financial risk and either the demand or availability risk are transferred to the private partner. This is the franchise model, and unlike other PPP types, it can be a genuine and appropriate way of moving an investment off the public balance sheet; it is sufficiently distant from state responsibility. However your government's intention to guarantee income to the private partner does not satisfy these criteria.

On PPPs the International Institute for Sustainable Development has noted that the UK Treasury has recently taken steps to address issues found with the implementation of PPPs.

"In December 2012 the Treasury announced a new form of financing, called Private Finance 2 (PF2), which aims to address some of the criticisms of the old model. The main reforms introduced are:

- The government will take a minority equity stake in many projects, to be managed by a separate unit within the Treasury.
- The maximum time period for PFI procurement will be 18 months.
- Soft facilities management services, such as cleaning, security or catering, will be removed and tendered separately.
- Secondary funding competitions will be introduced after the preferred bidder stage, aimed at attracting institutional investors such as pension funds.
- Private investors will be required to publish forecasted and actual equity returns. Gain share provisions will apply to unused life-cycle reserve funds.
- Public authorities will be able to alter the hand-back conditions for assets."

[redacted]

[redacted]

Yours sincerely.

[redacted]