



PROJECT FINANCE ADVISORY

 **ERNST & YOUNG**

Quality In Everything We Do

Private Sector Participation and Investment in Physical Infrastructure

for CAREC 5-7 March 2008, Tokyo

PPPs – What does it take for Road Projects, Australia Case Study

Bill Banks Ernst & Young

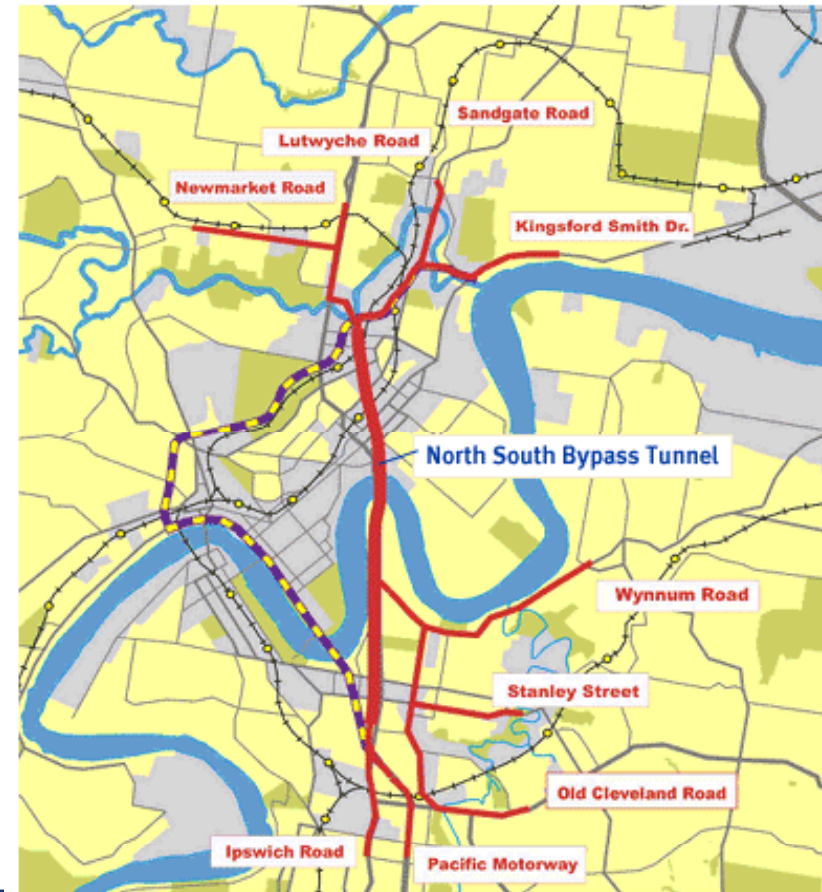
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Brisbane North South By-Pass (NSBT) Case Study



- Large complex project c.US\$3bn
- Challenging timetable –
 - Business Case to Financial Close in 2 Years
- Bidding market's scepticism about Queensland
 - Cross City Tunnel Issues
- Competing projects – Australia and International
- Brisbane City Council's first major project
- Project affordability

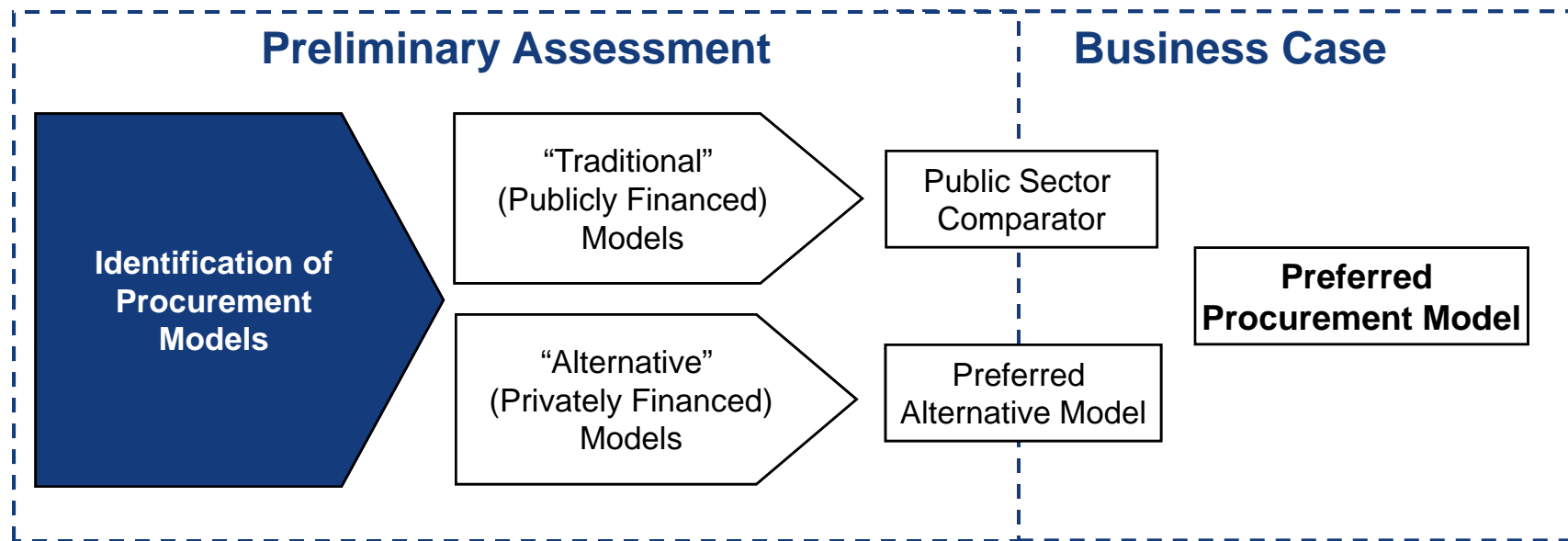


Cost of bidding estimated at between \$10M and \$20M
So bidders required, as a minimum, confidence in the process

Procurement Strategy

- Project certainty
 - > Bankable contract
 - > Transparent affordability limit
 - > Political commitment
- Truly integrated project team
- One-on-one structured interaction with bidders
- Minimise bid costs (precedent & contribution to costs)
- Benefit sharing proposals (focused on Airport Link)
- Committed bids – including proposals requiring EIS amendments

NSBT Business Case Objectives



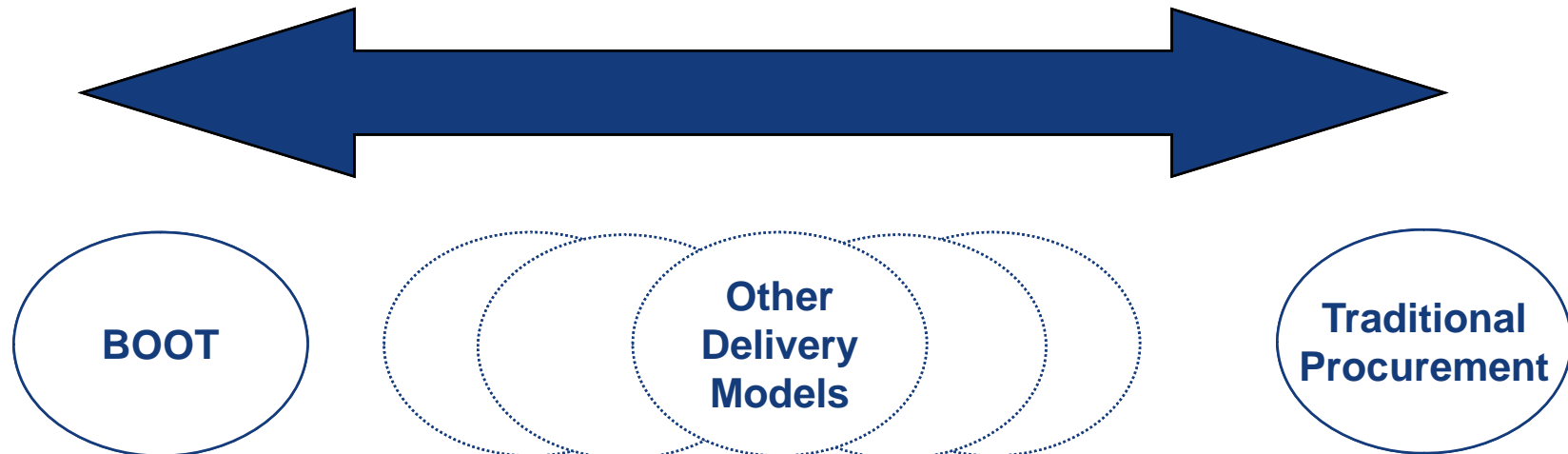
Key Objectives

- Identification of procurement option most likely to be Value for Money
- Identification and quantification of Risk and preferred Risk Allocation

Identification of Procurement Models – Key Requirements



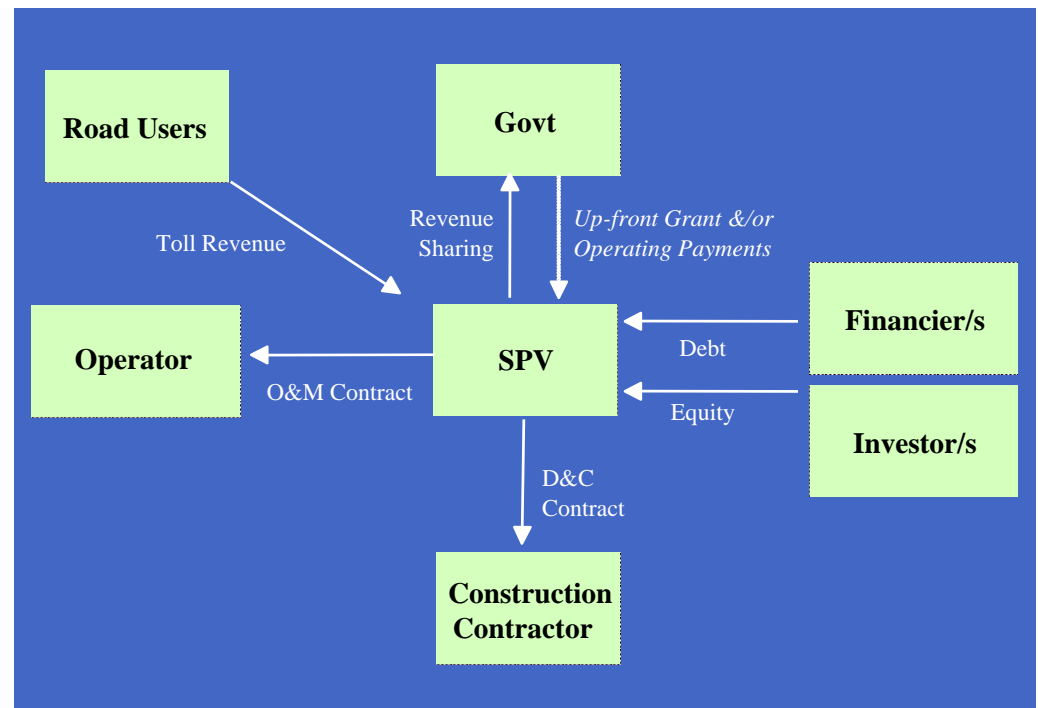
1. **Model needs to support Government's key objectives**
2. **Must be deliverable – market appetite, precedent transactions**
3. **Must meet Government's preferred risk allocation**



Preferred NSBT Delivery Model – BOOT Model

- **Private Sector responsible for:**
 - Building, owning, operating
 - Realising toll revenue (traffic risk)
 - Financing

- **Government will:**
 - Grant a long-term concession
 - Retain the right to set tolls
 - Share in up-side toll revenues
 - Share refinancing benefits
 - Provide an element of network protection



Bidders



Consortium	Sponsors
Brisbane Express Motorway	Bouygues, Egis Projects, MacMahon, McConnell Dowell
BrisConnections	John Holland, Hochtief, Macquarie Bank, Thiess
RiverCity Motorway	ABN Amro, Baulderstone Hornibrook, Bilfinger Berger Concessions, Leighton Contractors

North-South Bypass Tunnel – Tunnel Boring Machine



Key NSBT Project Outcomes



- Value for Money outcome
- Preferred risk allocation position maintained
- Full release of project documents at Financial Close
- All project timelines met
- Reduced bidding costs for bidders and government

Overview of the Deal with RiverCity Motorway



- Design, construction, maintenance, operating (including traffic and revenue) and financing (refinancing) risks transferred to RCM
- Council contribution to the project deferred until construction completion
- Concession term of 45 years
- Tolls increase annually in accordance with Brisbane CPI
- Benefit sharing arrangements
 - Revenue sharing (including 30% in last 10 years of concession)
 - Refinancing
 - Compensable enhancements

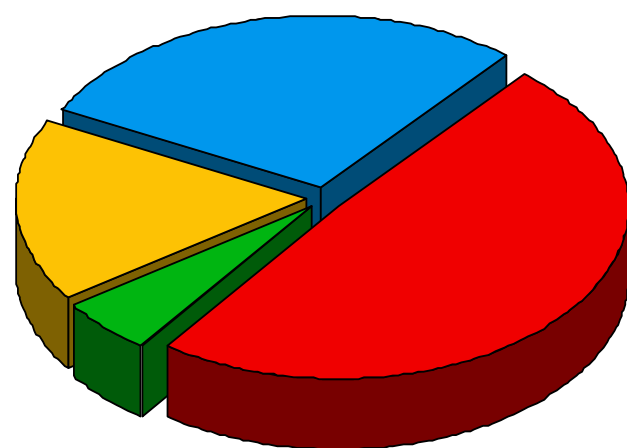
Innovation in Risk Management in NSBT – Gain Sharing



- A key feature of the NSBT project is the “**Additional Gains Sharing**” mechanism to prevent super-profits being earned by private sector.
- Focuses on 3 key areas:
 - **Additional Rent** – Project company is obligated to share additional revenue derived from the project over the estimated total project revenue from the base case financial model.
 - **Refinancing Gain** – Gain created from the additional refinancing of debt must be shared
 - **Compensable Enhancements** – Positive impact on project revenue resulted from transport network enhancements undertaken by the Council must be shared, while changes to the network leading to reduction in total revenue could be used to offset other “revenue sharing” payments otherwise payable to Council.

RCM – Funding Summary

- Construction cost is funded by a combination of bank debt, contribution from the Brisbane City Council, deferred equity contribution from sponsors and an Initial Public Offering (including Dividend Reinvestment).



■ Debt ■ Sponsor EQ
■ Council ■ IPO

Stage	%	Time Line
IPO	29	Listed 3 rd August, 2006
Debt Approved	49	Completed 4 th August, 2006
Council Contribution	17	Amount sized 4 th August 06, payable at construction end
Sponsor Equity	5	End of construction

NSBT Procurement Process – Key Success Factors



- Appropriate level of interaction with industry
- Output based specification
- Innovative commercial proposals encouraged
- Minimise tender costs by drawing on precedent (toll road PPP's in Victoria, NSW)
- Optimal risk allocation (bidders comfortable with Australian precedent)

NSBT successful because...



- Clear business case - Government committed
- Effective procurement process
- Clear specification of outputs
- Government team properly resourced internally and supplemented by expert advisers
- Private sector had the expertise to deliver
- Risk allocation is genuinely “to the party best able to manage or mitigate”
- Value sufficiently large to justify procurement costs
- Appropriate rate of return for the private sector



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