

DOMESTIC ISSUES IN INFRASTRUCTURE FINANCING

Commentary

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Tony Browne has just taken us from the 1880s to the 1980s and from the mundane world of definitions to the esoteric heights of section 51AD of Australian Income Tax Law. Like most of you, I have attended dozens of conferences on infrastructure and heard scores of papers, but found Tony's tour probably the most comprehensive and rewarding offering.

Unfortunately, Tony's tour did not stop at Queensland. Like the other States, but before several of them, Queensland introduced guidelines for private sector participation in public infrastructure in 1992. Unlike some of the other states, Queensland made specific provision in its guidelines for the award of infrastructure mandates by direct negotiation in certain circumstances.

Other commentators have found it strange that there has been relatively sparse private infrastructure provision in Queensland since the guidelines were published in 1992. To some extent, the deep nation-wide recession was a factor, but paradoxically, the relative strength of the Queensland economy probably explains the position. Queensland, throughout that period, has maintained an unquestioned AAA credit rating, with budgets relatively balanced and the net debt position well under control. There has not been, therefore, the financial imperative on the Queensland Government to embark upon a mass privatisation campaign or to indulge in a wholesale movement of capital investment off the State's balance sheet.

Nevertheless, there have been some very significant and path-breaking initiatives, including:

- two new \$200m natural gas pipelines
- the Woodford prison (\$50m+)
- the sale of the Gladstone Power Station (\$750m)
- the leasing and refurbishment of the Collinsville Power Station (\$100m)
- the Barcaldine Power Station (\$40m)
- the Eungella and North-West Queensland water pipelines (\$120m)
- the sale of the State Gas Pipeline (\$162m)
- the mandate for the Brisbane Airport rail link (\$100m+)

There were also some other projects that did not proceed beyond the stage of detailed consideration for a variety of reasons. The proposed motorway between Brisbane and the Gold Coast is probably the most celebrated of these.

It is worth concentrating upon the recently announced Brisbane Airport rail link because this project brings a number of issues into sharp focus.

From time to time, over a number of years, a rail link to the airport had been considered and found to be uneconomic. Some 18 months ago, a private developer submitted a detailed case to the government showing that the rail link could be made a commercial proposition by enhancing the pure transportation task with other commercial activities. The developer sought an exclusive mandate to develop a bankable proposal in accordance with the government's infrastructure guidelines. The government of the day, however, decided to call for expressions of interest for the rail link, essentially to see whether any superior proposals would emerge.

None did.

The present government reviewed the situation and concluded that the consortium behind the original proposal should be given a chance to develop a bankable proposal and this decision was announced last week.

It was surprising that the press found room for controversy in that decision.

The Infrastructure Association of Queensland has been agitating for some time for the government to improve the 1992 guidelines and, in particular, to clarify the circumstances under which a developer could expect an exclusive mandate. In principle, the Association is strongly supportive of the policy of the present government that *if the private sector comes forward with an infrastructure initiative which has public benefit, regardless of whether or not it is patentable, then it should be given the opportunity to fully develop its concept and, in due course, to proceed with it.*

The Jeremiahs in this case posed the question: "Where's the intellectual property in a railway line?" This question reveals the narrow thinking of conventional infrastructure providers. The essence of the airport rail link proposal lies not in the railway itself but in the commercial enhancements that produce a commerciality that the transport task alone would appear unlikely to achieve.

It is no accident that in the mere ten days or so since the rail link decision was announced, I have had several approaches from the proponents of some quite different and certainly very interesting infrastructure concepts.

Indeed, it is this very spirit of innovation and the confidence to bring forward such proposals that the Queensland Government is seeking to encourage through a more liberal approach than its predecessor or, indeed, governments interstate.

With that in mind, the government is currently working with the Infrastructure Association of Queensland in a full review of the 1992 guidelines to ensure that the policy works to enhance and not constrain the private sector's contribution to the enormous task Queensland faces in providing the infrastructure for a growing population and an expanding economy.

It is interesting to note that of the infrastructure projects listed previously, few were initiated purely within the private sector. If we have the balance right, then one would expect much more initiative from the private sector. As plenty of commentators, (like Osborne and Gaebl in their excellent book "Reinventing Government"), have shown, we public servants often find it hard to think outside the square; we tend to think of what is manageable within the confines of our budgets and when we are in control we tend to impose the same limitations upon others.

As Tony has pointed out, it is often difficult for governments to resist the temptation to be overly prescriptive in specifying the parameters for a private infrastructure project. Being overly prescriptive, rather than protecting the government's position, can destroy a project. In making

that statement, I do not deny that there may even be some people in government who deliberately make the hurdles so high that the equity participants or the debt providers find it impossible to proceed; the private sector cannot deliver ... *Quod erat demonstrandum!*

At this stage, I should hasten to add that there can be project "saboteurs" in the private sector as well. A responsible government cannot be expected to accept risk simply because no other party is willing. Governments are under at least as much scrutiny as listed companies and the consequences for bad decisions can be fatal; it is imperative that the private participants in a project realise that we on the government's side are also obliged to undertake full due diligence and assess the magnitude and probabilities of the risks we face. It should come as no surprise either that we will seek to balance risk exposure with a share in the rewards.

At the present time, it is difficult to talk about risk allocation without touching upon perceptions of the risks associated with Native Title claims and environmental impact statements. I find it difficult to regard these risks as apportionable exclusively to either sponsors or governments. Where these issues have been successfully managed, it is usually apparent that there has been early and close co-operation between all the stakeholders to reach a satisfactory outcome prior to project commitment. Where that co-operation is not achieved, or when the pressure of time or other strong leverage disrupts the negotiation process, a successful outcome seems extremely difficult to achieve.

Certainly the government can play an important role in facilitating negotiations and, in some circumstances, can play a direct hand itself, but all participants must accept some responsibility for managing these risks.