Modes of Mega Infrastructure Financing and their Effects on Cities: A Review of the Australian Experience

Phillip O’Neill
Centre for Western Sydney
Outline

1. Context
2. Theoretical framework
3. Australia's infrastructure history
4. Case study privatisation Port of Newcastle
5. Case study privatisation of Port Botany and Sydney’s motorways
6. Conclusions
Relevance

1. What is the public policy rationale for the privatisation of urban infrastructure?

2. What demands are made on the operation of urban infrastructure when their performance coincides with the need for delivery of competitive returns over long time periods?

3. What new management skills and tasks are required of government and its apparatus in order to ensure successful infrastructure rollout and operation?
Concerns

1. What relationships between infrastructure financing and urban structure/performance are evident?
2. How are these expressed?
3. What does a progressive politics of infrastructure provision look like?
4. What sorts of state capacity and action—statecraft—are needed?
PRIVATE ISLAND

WHY BRITAIN NOW BELONGS TO SOMEONE ELSE

JAMES MEEK
The Wider Project

• Australian Research Council Discovery Project: *Tracing modes of infrastructure financing.*
• Michael Pryke and John Allen from Open University
• Preqin data base analysis
• Interviews in New York, Toronto, London, Sydney, Melbourne
• Documentary case studies.
Infrastructure’s tensions

Interplay and tension

Investors

The asset

Finance
Figure 1 Annual Value of Privatisations in Australia, 1987–2013 (constant $2,000)
Figure 2  Jurisdiction of Privatisation in Australia, 1988–2013 (% of 2000 $194 billion)

- Western Australia: 3%
- Combined: 1%
- Victoria: 24%
- Tasmania: 0%
- South Australia: 5%
- Queensland: 7%
- New South Wales: 7%
- Australia: 53%

Abbott and Cohen 2014
Figure 3  Privatisations in Australia by Industry Type, 1988–2013 (% of constant $194 billion)

- Communications 33%
- Electricity 25%
- Financial services 15%
- Gambling 2%
- Gas 8%
- Housing 3%
- Transport 4%
- Aviation 9%
- Manufacturing 1%
- Other 2%
Evolution of Finance Market

Monopolisation through time

Experimentation

Early innovators
  - Macquarie
  - National Westminster
  - Other

Early adopters
  - Rothschild
  - Brown
  - Allen

Oligopolisation
  - Collapse

Globalisation
  - Alliances
  - Corporations
  - Direct investors
  - Open-ended funds
  - Market niches
Infrastructure’s lifecycle

- Project commences
- Operation commences
Risk lessens

Returns moderate

Financing period lengthens
# Financialisation of an Asset

<table>
<thead>
<tr>
<th>Brownfields assets</th>
<th>Core Plus</th>
<th>Merchant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure, predictable, long term, CPI-indexed</td>
<td>Core plus</td>
<td>Merchant</td>
</tr>
<tr>
<td>- Monopoly residue</td>
<td>- eg electricity</td>
<td>- eg ports, airports</td>
</tr>
<tr>
<td>- Quasi residue</td>
<td></td>
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</tr>
</tbody>
</table>

| Quasi-Assets | Nursing homes | Parking meters | Funeral services |
Infrastructure’s Framings

• Organisational structure
• Capital structure
• Regulatory regime
# Evolution of Organisational Structure

<table>
<thead>
<tr>
<th>Asset</th>
<th>Utility</th>
<th>SOE</th>
</tr>
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Various forms:
- asset
- SIV
- trust
- Fund (closed)
- Fund (open)
- Corporation
- SWF
Evolution of Capital Structure

Private provision

- via the state, on balance sheet
  - through debt + bonds
  - funded by taxation

- via the state, off balance sheet via SOEs/utilities
  - through debt + bonds
  - emergence of fees funding

Privatisation

- financing via:
  - equity capital
  - debt capital

- funded by:
  - taxation
  - fees
# Evolution of Regulatory Regime

## The State

<table>
<thead>
<tr>
<th>Asset</th>
<th>Utility</th>
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<td>Colonialism</td>
<td>Extensive Capitalism</td>
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<td>New Deal</td>
<td>Keynesianism</td>
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## The Market

<table>
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<tr>
<th>SOEs</th>
<th>Legal Fictions tied to national jurisdictions</th>
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<tr>
<td>Globalization</td>
<td>Transnational Ad Hocism</td>
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<td>Monopoly Capitalism</td>
<td>Market Liberalisation</td>
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# Evolution of Regulatory Regimes

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Evolution of Regulatory Regime

THE MARKET

SOES

Legal fictions tied to national jurisdictions

globalisation

transnational ad hocism

monopoly capitalism

market liberalisation

market crisis

neoliberalism
‘Joe’ Cahill
Premier NSW 1952 to 1959
Paul Keating
Treasurer 1983 to 1991
Fred Hilmer
National Comp. Policy 1995
Restructuring and National Competition Policy

- Within a national project of international competitiveness, rising productivity and economic rationalism for the state apparatus
- Sell-off of national non-infrastructure state enterprises (Qantas, Commonwealth Bank, Commonwealth Serum Laboratories)
- Corporatisation and marketisation of utilities
Jeff Kennett
Premier Victoria 1992 to 1999
Peter Costello
Treasurer 1996-2007
Privatisation and Debt Reduction

• Sell-off state utilities
• Sell-off national telecommunications carrier
• Repeated fiscal surpluses
• Funding of pension liabilities esp. by Future Fund
• Infrastructure emerges as a financial product and as a private economic sector
Kevin Rudd and Julia Gillard
Prime Ministers, 2007 to 2013
Privatisation and Debt Expansion

• Continued sell-off of state utilities
• Establishment of Infrastructure Australia
• But Global Financial Crisis and massive spending response
• Repeated fiscal deficits
• Infrastructure role devolved to private sector
Mike Baird
Premier NSW, 2013–
The Recycling Capital Period

- Long term public finance difficulty
- Continued sell-off of state utilities
- Funds (to be) recycled into newly commissioned projects
- Maturing assets privatised and cycles repeated.
Port of Newcastle
Port Botany and Sydney’s Motorways
All Tolls accept Cash, Tag, Roam e-PASS and Visitor's e-PASS.
Roads and projects

Transurban has an interest in 14 urban motorways in Australia and the USA.

**Melbourne, Australia**

- CityLink (100% shareholder and manager)

**Sydney, Australia**

- Hills M2 (100% shareholder and manager)
- Lane Cove Tunnel (100% shareholder and manager)
- Eastern Distributor (75.1% shareholder and 100% manager)
- M5 South West (50% shareholder)
- Westlink M7 (50% shareholder)
- Cross City Tunnel (100% shareholder and manager)

**Brisbane, Australia**

Transurban has a 62.5% share in and manages the following toll roads:

- Gateway Motorway
- Logan Motorway
- Clem Jones Tunnel
- Go Between Bridge
- Legacy Way (under construction)
<table>
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<tr>
<th>Year</th>
<th>Australia</th>
<th>Sydney (GMR)</th>
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<tbody>
<tr>
<td>1850</td>
<td>0.4 mil</td>
<td>39,000</td>
</tr>
<tr>
<td>1900</td>
<td>3.7 mil</td>
<td>481,000</td>
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<tr>
<td>1950</td>
<td>8.3 mil</td>
<td>1,700,000</td>
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<tr>
<td>2000</td>
<td>19.2 mil</td>
<td>4,085,000</td>
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<tr>
<td>2050</td>
<td>35.0 mil</td>
<td>7,500,000</td>
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Sydney’s Growth Projections – 30 Year

Total Container Trade

- Actual
- Low Growth
- Likely Growth
- Strong Growth
Lessons from the Australian Experience

- Public sector balance sheets
- Contemporary state apparatus
- Sources of finance
- Funding
- Statecraft:
  - Organisational structures
  - Capital structures
  - Regulatory structures