PUBLIC, PRIVATE MUST LINK TO FUND PROJECT

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There has been a recent flurry of activity by the Commonwealth regarding the planned construction and operations for the proposed Western Sydney Airport.

The Federal Budget committed up to AUD5.3 billion in equity over 10 years to the Western Sydney Airport Corporation. This has been followed by detailed information sessions and the release of Key Functional Specifications.

Stage 1 involves a single runway catering up to 10 million passengers per year due for completion in 2026. Longer term, a second parallel runway will be required for an eventual forecast capacity of 82 million annual passengers by 2063. Construction is expected to begin next year and the overall spend, including all long-term upgrades, is estimated to be AUD38 billion.

The Airport represents a once-in-a-generation opportunity but it also represents a fiendishly complex financing headache.

The large upfront capital outlays, significant patronage risk, a lengthy construction period without positive cash flow, a staged construction to match demand forecasts and uncertainty regarding the profile of the airlines, passengers and businesses that will use the Airport precinct, all generate risk. This leads to significant difficulty in attracting foundation long-term users and traditional project financiers.

The solution to such complexity is to appropriately balance the public and private sector's role. Only the public sector has the ability to absorb significant operating losses through its revenue raising capabilities and ability to raise cheap debt. This allows the public sector to fulfil its mandate to resolve the long-term aviation constraints in the Sydney basin, integrate the Airport into current global aviation network, connect it with the current and future road and rail transport network and integrate the Airport precinct into surrounding commercial zones and the national economy.

At the same time, it will be vitally important for the private sector to be involved given its expertise and specialised skill set in direct project delivery, the role of competition to efficiently allocate capital, and its demonstrable appetite for investment in long-term infrastructure projects - all of which serve to defray the costs and risks to the taxpayer.

So what form of investments is the public sector likely to make? The Commonwealth's stated preference is for equity injections and concessional loans rather than block grants to the States. This is because such investments can be off Budget balance-sheet (like the NBN), may generate a sizeable return upon sale and can be used to

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leverage further private sector investment. The Government has repeatedly cited projected long-term benefits for taxpayers of AUD1.80 for each AUD1 invested into the Airport and has favourably referred to the Commonwealth's AUD370 million equity contribution to Sydney's Moorebank Intermodal Terminal which, generated AUD1.5 billion in investment from private sponsors and contractors, as an analogue for generating potential private sector investment into the Airport. Other options include guarantees, revenue-sharing or partnering in user-charging and value capture for ongoing funding of the project. As for an eventual exit, the staged construction timetable points to a possible privatisation at the end of Stage 1 and using the proceeds to finance the considerable upgrades which are forecast to be required. Whilst that is a way off, the Commonwealth should articulate its financing plan for all stages of the Airport as soon as possible to attract private sector investment.as the patronage and regulatory risks decrease.

The Commonwealth's reticence in deploying block grants has implications for State Government funding of supporting infrastructure for the Airport. Through its Infrastructure Future Fund, NSW's initial emphasis will be on the road upgrades surrounding the Airport a freeway link to Sydney's existing arterial road network and land-use arrangements outside the perimeter fence. The missing piece is rail connectivity to the Airport. It will be important for these arms of government to integrate their involvement - something the National Partnership Agreement on infrastructure will need to specifically address when it comes up for renewal in 2019. Ultimately, all levels of the public sector will need to work together and with the industry and investment community to realise a nationally-significant piece of infrastructure without being a burden on future generations.

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