
Get Ready For the Next Listed Toll Road

When a joint venture between Transfield and Japanese construction company Kumagai Gumi won the contract to build the Sydney Harbour Tunnel in 1987, they did so based on overly optimistic traffic forecasts. In this regard, nothing changed in the following 20 years. It's a simple fact that if you're an investment banker organising a bid and you don't have an aggressive traffic forecast, you're not going to win. There's really no need for the adjective 'aggressive', if you're a conservative traffic forecaster, you're in the dole queue.

When the harbour tunnel traffic didn't meet forecasts, though, it wasn't Transfield or Kumagai Gumi losing their shirts. It was the NSW State Government. As part of the contract, the Government agreed to top up the construction companies' revenue to compensate for any shortfall in traffic relative to the initial bid assumptions. These were the good old days of Public Private Partnerships, where the private sector got all of the rewards and the public sector took all of the risks. In 2007/8 financial year alone, the NSW Government paid the joint venture partners \$58.9m (the tunnel only cost \$555m to build). Between now and 2022, when ownership will revert to the government, NSW taxpayers are expected to hand over another \$1.1bn in subsidies.

There was no need for the bankers to offer deals like this to mum and dad investors. Westpac financed the lot and why wouldn't it? It was only taking on government credit risk which (for now at least) is one of the safer investments you can make.

During the next 20 years, private sector demand for infrastructure investments exploded and, project by project, the public servants became more commercial and savvy. By the time contracts were awarded for Melbourne's Eastlink, Sydney's Cross City and Lane Cove tunnels and Brisbane's RiverCity and BrisConnect toll roads, the risk/reward trade-off had completely reversed.

The private sector (by this time mostly gullible retail investors, but the construction companies, such as Leighton Holdings, have also put a large portion of their expected construction profit on the line) took all of the risk, contributed the vast majority of capital and the taxpayer, without taking on any risk at all, has some brand new infrastructure which they can use if they choose. When RiverCity files for receivership some time during the next few years - now a fait accompli - there will be all the usual outcry about the death of Public Private Partnerships and 'another failure for private sector infrastructure'. I don't see why the average tax payer should give a hoot about the private sector bidding too aggressively; all it means that less money was required from the public purse. I can't remember the exact quote but former Victorian Premier Jeff Kennett said something similar about the insolvency problems of the power stations he privatised in the 1990s: 'it's not my problem that they paid too much'.

But with toll road investments failing at a rate of about one per [Japanese prime minister](#), I'm tipping the next deal might be something more akin to the days of yore (if I had to bet on which would last longer, Yukio Hatoyama's successor, probably Naoto Kan, or Rivercity, the latter would undoubtedly get my money). With financing hard to come by, investors swearing off infrastructure forever and traffic forecasters such as Maunsel showing themselves to be as

reliable and conflicted as a ratings agency, governments will have to offer substantially better terms to encourage private sector investment.

Of course, when the good deals are on the table you can bet they won't be offered to retail investors. On the slim chance they do, though, the next toll road might just be the one for us.