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**A critique of the proposal to outsource ARFFS infrastructure procurement
and management by Airservices Australia**

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1. Introduction

Terms of Reference

Airservices Australia (ASA) have proposed a ‘Value-for-Money’ (VfM) deal, which involves what they term a ‘Strategic Partnership’ (ASA, 2026b) with a private sector corporation. The Strategic Partnership would see the ASA outsource the provision and maintenance of ARFFS (Australian Rescue Fire Fighting Service) infrastructure assets to a private partner under contract.

The UFU (Aviation Branch) has sought an independent analysis of the proposal from the Centre of Full Employment and Equity (CofFEE).

The capacity to produce a detailed independent analysis has been constrained by the unwillingness of Airservices Australia to make the modelling they are using to justify their VfM proposal publicly available.

However, notwithstanding this lack of transparency and accountability, a case can be made, based on financial realities and international experience, that the outsourcing of essential public aviation infrastructure to private finance will increase long-term costs for the Australian public and is a poorly considered proposal.

Key Points

Airservices Australia is a wholly government-owned statutory authority whose primary role is to ensure the safe management of Australian airspace and airport rescue and firefighting services.

Under the Air Services Act 1995, the Commonwealth government retains significant control over Airservices’ corporate planning, borrowing, and financial direction, including the ability to require dividends and issue ministerial directions.

We argue that that these legislative arrangements mean the Commonwealth ultimately remains financially responsible for Airservices and can provide low-cost funding when needed.

A major concern raised is the lack of transparency surrounding Airservices’ proposed “Value for Money” (VfM) partnership with a private financial corporation to fund and manage aviation firefighting infrastructure. Key financial assumptions—such as discount rates and rates of return requirements—have been withheld under “commercial-in-confidence” provisions, preventing independent evaluation. This secrecy is presented as inconsistent with public accountability standards expected of government agencies managing public assets. It erodes trust in government and suggests that Airservices Australia does not have a case that would withstand independent scrutiny.

International evidence, particularly from the UK House of Commons Treasury Committee, demonstrates unambiguously that private finance initiatives (PFIs) consistently cost more than direct government borrowing. Private partners face higher borrowing costs and must generate shareholder profits, making infrastructure delivery more expensive over time. We reject the claim made by Airservices Australia that a private partner could finance infrastructure more cheaply, arguing that as a government-backed entity, Airservices Australia can access borrowing at near-sovereign rates and therefore has a lower cost of capital than any private firm.

Further, Airservices Australia’s financial constraints are largely political rather than economic. Although the organisation cites debt limits, credit ratings, and post-COVID balance sheet weakness as reasons for pursuing private finance, these limits are self-imposed by government

policy. Because the Commonwealth guarantees Airservices' obligations, the organisation's "standalone" credit rating is described as artificial and irrelevant in practice. We conclude that the proposed outsourcing arrangement is not financially necessary but reflects broader government choices to operate public agencies under private-sector financial rules.

Overall, the outsourcing essential public aviation infrastructure to private finance will increase long-term costs for the Australian public while reducing transparency and accountability.

Direct public funding would be cheaper, more efficient, and more consistent with the statutory purpose of Airservices Australia as a public service provider rather than a profit-seeking corporation.

2. Airservices Australia

Airservices Australia (2026a) ‘is a government-owned organisation responsible for safely and efficiently managing air traffic in 11 per cent of the world’s airspace, as well as the provision of aviation rescue fire fighting services at Australia’s busiest airports.’ It is part of the Australian government and accountable to the Australian Parliament through the Minister responsible for the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (DITRDCA).

Its *raison d’être* is to provide safe conditions for air travel within and into and out of Australia and the services at airports related to that mission.

It had previously been part of the Civil Aviation Branch but in July 1995, that organisation was split into Airservices Australia (ASA) and the Civil Aviation Safety Authority (CASA).

Its legal framework is provided by the **Air Services Act 1995**, which specifies the functions of ASA, what it can do as a wholly owned public corporation, and what the Minister in charge of the relevant portfolio can do with respect to ASA.

Among the sections relevant for this Report, Section 13 notes under ‘Matters to be considered in preparation of corporate plan’ that:

...

(e) the need to maintain a reasonable level of reserves, having regard to estimated future infrastructure requirements;

(f) the need to earn a reasonable rate of return on AA’s assets (other than assets wholly or principally used in the provision of search and rescue services);

(g) the expectation of the Commonwealth that AA will pay a reasonable dividend;

Under Section 14, the Federal Minister can essentially tell ASA to vary its corporate plan.

Under Section 16 *Ministerial directions to AA*, we learn that the Minister can direct the statutory body to do whatever he/she wants, and that ASA ‘must comply’, and, importantly, that:

If AA satisfies the Minister that AA has suffered financial detriment as a result of complying with a direction given by the Minister under subsection (1), AA is entitled to be reimbursed by the Commonwealth the amount that the Minister determines, in writing, to be the amount of that financial detriment. In this subsection, financial detriment includes:

(a) incurring costs that are greater than would otherwise have been incurred; and

(b) forgoing revenue that would otherwise have been received.

This is very relevant for how we might assess ASA’s VfM proposal. As we will learn, the case presented by ASA is heavily predicated on the damage that the COVID pandemic caused to its revenue base and subsequent balance sheet (increased debt to equity ratio). ASA (2026b: 15) also claim that the relief received from the federal government during the early restricted years of the COVID pandemic only ‘partially alleviated’ the losses that the ‘insufficient revenue’ in that time caused. Further, the Commonwealth financial support was ‘insufficient ... to replace critical assets’ that had reached end-of-life.

Now ASA is claiming that Commonwealth support will remain highly constrained and will ‘limit Airservices’ ability to re-invest in the business due to greater dividend requirements’ (p.14).

The conclusion is that as the owner of the statutory body, the Commonwealth considers ASA should generate returns that come back to the government rather than the Commonwealth fulfilling its legislative responsibilities under Section 16 of the Air Services Act 1995.

Section 46 is also very relevant and relates to the 'Payments of dividends by AA to the Commonwealth' - in essence, ASA must remit dividends on its 'profits' to its owners, the federal government. ASA (2026b: 13) note that:

The Commonwealth is Airservices' owner and support is not a "free ride" as it is expected to be returned via dividends

This expectation limits the capacity that ASA has to invest in new infrastructure.

Section 48 relates to 'Borrowing by AA from the Commonwealth':

The Finance Minister may, on behalf of the Commonwealth, out of money appropriated by the Parliament for the purpose, lend money to AA on terms and conditions determined in writing by the Finance Minister.

Which means that ASA essentially has access to the same bond market resources that the Federal government has, which is crucial to understanding why the VfM proposal is not the lowest cost option to upgrade and maintain the ARFFS assets used by ASA.

As we explain below, ASA is currently claiming that its borrowing is limited and its credit rating as a 'standalone entity' is BB-, which, if binding, would significantly increase the costs of borrowing in the open financial markets and probably place it at a disadvantage relative to a high-rated private corporate borrower.

But the BB- rating is a sort of fiction which treats ASA as equivalent to a private corporation. The fact is that under Section 48 of the Air Services Act 1995, ASA is deemed part of government and enjoys the bond market access that the government itself enjoys as a 'risk-free' borrower.

That means that ASA, in the absence of any artificial and self-imposed constraints, can borrow at much lower yields (interest rates) than a corporate borrower must pay exactly because it is part of the Commonwealth government.

The only way that ASA would have to access the debt markets with a standalone BB- rating is if the federal government refused to guarantee its debt and that would be highly unlikely, given ASA is 100-per cent government owned.

3. Transparency in public sector decision making

One of the responsibilities of government is to ensure its agency is performed in an efficient and honest way given that the citizens entrust government to manage considerable public resources on their behalf. Governments have an obligation to disseminate adequate information to the public about the decisions they take and the resource implications.

An essential component in building trust between government and community is transparency in public decision-making. Transparency signals to the public that the elected representatives and the public officials that support the legislative and regulative structures are working in the public interest rather than advancing private gain.

Transparency also reduces the risk of fraud and decision-making bias to enter large scale public expenditure decisions.

Importantly, transparency permits independent evaluation of the economic or business case used by government to justify large-scale investment projects. The capacity to allow independent evaluation is an essential part of the trust relationship between government and the public.

Conversely, the modern trend to restricting information to the public based on the so-called 'commercial-in-confidence' defence seriously erodes trust. When accountability is diminished by recourse to 'commercial-in-confidence' avoidance, public scrutiny of the private funding initiative relative to alternative forms of infrastructure funding is diminished. This denigrates the quality of our democracy.

The ASA VfM proposal is shrouded in secrecy. The UFU (Aviation Branch) approached CofFEE to conduct an independent review of the proposal, but such a review is impossible to fully execute because important financial information (such as discount rates being used) is being withheld by ASA under the commercial-in-confidence claims.

Such secrecy immediately invokes suspicion, especially given the overwhelming international evidence that such PFI projects are always more expensive than conventional government funded projects delivering the same infrastructure and/or service.

The Australasian Council of Auditors-General considered that commercial-in-confidence claims should not be more important than public accountability and public interest (Barrett, 1999).

Pat Barrett, who held the role of Auditor-General for Australia, wrote that even his 'Office' found it hard to 'access ... contractor records and other information relevant to public accountability' (Barrett, 2001: 1). Barrett (2001: 3) noted that 'private sector providers have made, on many occasions, claims of commercial confidentiality that seek to limit or exclude data in agency hands from wider parliamentary scrutiny.'

He quoted the Victorian Auditor-General at the time who said (Barrett, 2001: 3):

... the issue of commercial confidentiality and sensitivity should not override the fundamental obligation of government to be fully accountable at all times for all financial arrangements involving public moneys.

The Queensland Public Accounts Committee (2002: 1) considered that the 'information needs for public accountability and public interest should take precedence' over commercial concerns.

The literature that has studied the decline in government accountability as governments move from a service culture to managing private contracts, has also noted that appeals to 'commercial-in-confidence' to restrict public information and independent review is overused.

Barrett (1999: 4) noted that the resort to secrecy 'often overstate the implied risks to an entity that might be occasioned by the release of commercial data ... But even where commercial information might have commercial value to others, there are often overriding obligations that require it to be released. This is so for commercial information held in the private sector and, a fortiori, it applies to the public sector'.

We might ask why the prospective private partner is reluctant to release the underlying parameters of the proposal unless those parameters cannot be reasonably defended through independent scrutiny. It seems that ASA is not engaging in a competitive tender but has rather selected the prospective partner from a small field. Given the nature of the infrastructure and the temporal dimensions of the project there would seem to be little information that was commercially sensitive in terms of borrowing rates, expected rates of return, and the like.

The fact that ASA refuses to make the modelling public leads to the conclusion that there is something in the VfM proposal that ASA and its private partner does not want the public and independent analysts to know about.

4. International evidence – PFI options are always more expensive

There is a vast array of international evidence that points to the fact that private sector financing of public infrastructure turns out to be more expensive and demonstrates myopic decision-making by governments.

On August 19, 2011, the British Treasury Committee in the House of Commons published its ‘Seventeenth Report: Private Finance Initiative’ report in two volumes, which followed an extensive examination of the *extant* evidence on the use of private financing by the British government in the provision and management of public services and infrastructure.

The overwhelming conclusion that the Treasury Committee (2011: 3) reached was that:

Private finance has always been more expensive than government borrowing, but since the financial crisis the difference between the costs has widened significantly. The cost of capital for a typical PFI project is currently over 8%—double the long term government gilt rate of approximately 4%. The difference in finance costs means that PFI projects are significantly more expensive to fund over the life of a project.

In other words, despite the claims that PFI projects represent ‘value for money’, they always end up requiring larger outlays than would be the case if the government funded the projects themselves. Interestingly, ASA compares the PFI option with a Self-fund option and assumes the partner’s return on capital will be 8 per cent (ASA, 2026b: 19).

The Treasury Committee (2011: 3) also reported that:

We have not seen clear evidence of savings and benefits in other areas of PFI projects which are sufficient to offset this significantly higher cost of finance.

In terms of assessing the ‘Value for Money of PFI’, the Treasury Committee (2011: 6) considered the ‘benefits and disadvantages’ of PFI and concluded that:

The use of PFI has the effect of increasing the cost of finance for public investments relative to what would be available to the government if it borrowed on its own account.

Even the British Office for Budget Responsibility acknowledged that PFI projects involved a ‘higher cost of capital’ relative to the government using its superior access to the bond markets to fund the project itself (see Treasury Committee, 2011: 6).

This finding is at the nub of our criticism of ASA’s proposed Strategic Partnership, which we will outline in detail below.

The Treasury Committee found that the attraction of PFI projects for governments is that the required infrastructure spending does not appear in the fiscal statements (spending or public debt), which has political appeal in an era where governments make virtue of recording lower fiscal deficits and surpluses. While the political appeal is obvious, the reality is that over the life of the PFI project the government outlays end up being higher than if it had funded the infrastructure itself. The PFI contracts tend to conceal that fact from the public.

The Treasury Committee (2011: 13) said:

If Departments or public bodies do not have a capital budget large enough to allow for desired capital investment, there is currently a substantial incentive to use PFIs which are not included within Departmental budgets (Departmental Expenditure Limits). A PFI deal will have a smaller (but much longer lasting) impact on the current budget of an organisation whereas a conventionally procured capital project will result in a significant one-off hit to the capital budget. In the long term, the PFI arrangement will build up big commitments against future years’ current budgets that have not even yet

been allocated or agreed. We are concerned that this may have encouraged, and may continue to encourage, poor investment decisions. PFI continues to allow organisations and government the possibility of procuring capital assets without due consideration for their long-term budgetary obligations.

This is apposite to the ASA VfM proposal. ASA (2026b: 15) claims that it does not have sufficient scope in its financial structure, given Department of Finance imposed constraints, to self-fund the ‘ARFFS Capability Uplift Program’. We argue below that the self-funding limitations are purely political and mean that the overall cost of the ‘Uplift’ will be higher, despite the claims to the contrary by ASA managers.

The Treasury Committee (2011: 18) provided a stylistic example on the financial cost of capital expenditure under the PFI option relative to the conventional government finance option. It concluded using plausible assumptions based on real world parameters (borrowing rates, etc) that the ‘higher cost of capital for the PFI option compared to government gilts meant that, without any offsetting efficiencies, the cost of the PFI option would be 70% higher over the life of the project.’

The alternative way of understanding this differential is (Treasury Committee, 2011: 18):

... to consider how long it takes government to pay off outstanding debt. If government borrowed directly and followed the same repayment schedule as the PFI charges the government debt could be fully repaid many years before the equivalent PFI liability could be paid off.

One of the claimed advantages of PFI is that it allows the government to transfer the risk of the project to the private sector. PFI proponents claim that the difference in borrowing rates reflects project risk and lower public rate implies that government will rescue a failing project via drawing on consolidated revenue. Therefore, PFI is constructed by its proponents as an efficient transfer of risks from public to private. The gains are alleged to arise from the private sector being better able to manage risk – largely because they have a higher incentive to do so – private profit.

This has always been a highly contested claim. Cook *et al.* (2008: 192) concluded that:

The real problem with the PPPs in this regard is that is a falsehood that the risk shifts from the public to the private sector. Who ultimately bears the risk? The risk premium in private financing is based on the fact that a private entity can become bankrupt with its product and service exiting the market. With an essential public service it is a fantasy to say that the PPP contract transfers risk to the private sector. If the private partner defaults, the public always has to pick up the pieces. There is no real risk transferred.

The Treasury Committee (2011: 23) said:

Some of the claimed risk transfer may also be illusory—the government is ultimately accountable for the delivery of public services. Therefore, it would not be able to allow a number of services provided under a PFI contract to cease for any length of time.

This is clearly the case with the ARFFS infrastructure assets.

In summary, the Treasury Committee (2011) made the following additional conclusions:

1. ‘Efforts to meet fiscal rules at a national and European level may have contributed to the misuse of PFI’ (p.55).
2. ‘PFI contracts are inherently inflexible ... The inflexibility of PFI means that any emergent problems or new demands on an asset cannot be efficiently resolved’ (p.57).

3. 'The price of finance is significantly higher with a PFI. The financial cost of repaying the capital investment of PFI investors is therefore considerably greater than the equivalent repayment of direct government investment. We have not seen evidence to suggest that this inefficient method of financing has been offset by the perceived benefits of PFI from increased risk transfer' (p.58).
4. 'Rather than focusing on improving procurement methods and project management, public sector clients' attention has been diverted to financing arrangements and the other requirements unique to PFI. Owing to the complexity of PFI, the public sector has become too reliant on expensive external advisers' (p.60).

Point 4 is relevant in the ASA VfM situation. ASA (2026b: 9) claim that the self-funded costs would be raised by the need to invest 'in a team that can help lead and deliver the project'. One wonders how much different the new infrastructure will be relative to the current assets that are presumably being managed and serviced to meet current standards.

In the long-term, given the evidence to date of the poor value for money that PFI projects generate, relevant human capital investment would deliver larger benefits to the Australian community than using the short-term fix that is the PFI option.

5. The ASA proposal to outsource its infrastructure provision

Airservices Australia (ASA) have proposed a 'Value-for-Money' deal (VfM), which involves what they term a 'Strategic Partnership' with a private sector financial corporation. The Strategic Partnership would see the ASA outsource the provision and maintenance of ARFFS (Australian Rescue Fire Fighting Service) assets in its infrastructure portfolio.

ASA claims that this proposal will allow it to deliver 'world-class ARFF services' (ASA, 2026b: 11) within an air travel environment where passenger numbers are forecast to double between 2019 and 2050 on current trends.

ASA estimates that the real economic contribution (that is, adjusted for inflation) of the aviation sector in Australia will grow to \$A210 billion by 2025 up from an estimated \$A100 billion in 2022.

To maintain its service mission in the face of this estimated expansion, ASA argues it need to significantly increase the ARFFS infrastructure.

It cites an 'ageing fleet', 'thin reserves', current issues with existing infrastructure and proposed airport upgrades, problems with maintenance facilities, etc as challenges it is facing with respect to the provision of its services (ASA, 2026b: 6).

Importantly, the capacity they deliver is a significant consideration in the way Australian airports are categorised by aviation authorities, which, in turn, impacts on airline costs and willingness to fly in and out of Australian airports.

If an airport receives a category downgrade, then it will struggle to maintain connectivity, which in the Australian context is significant - we have a number of regional centres that are located at significant distances from the main urban centres.

The issue is obvious and unchallenged here - ASA needs to expand and upgrade its existing ARFFS infrastructure assets.

So why propose to outsource this to a private financial corporation rather than simply purchase and maintain the assets themselves as a government body?

That question is the focus on the rest of this report.

6. Government constraints on ASA pricing

ASA operates as a public monopoly in Australia in the provision of airport services. It is regulated by CASA in terms of safety and its pricing of services to users of airports is regulated by the Australian Competition and Consumer Commission (ACCC). The ACCC regulations are of relevance here.

The charges ASA can impose on airlines are based on a 'cost-recovery model' which has the following characteristics (see ACCC, 2024 for more detail):

1. Pricing is based on a 'building block' model which allows 'efficient costs' to be fully recovered.
2. This framework calculates the total revenue required to cover the costs of providing air traffic and rescue services while preventing the misuse of monopoly power.
3. Regulated Asset Base (RAB) - the value of its investment in infrastructure and equipment.
4. Recovery of day-to-day business expenses (scrutinised by ACCC to ensure no price gouging occurs).
5. Return on Capital - a reasonable rate of return on its assets, calculated using a Weighted Average Cost of Capital (WACC), which includes both debt and equity.
6. Depreciation - straight-line depreciation used.

Historical evidence suggests that the 'reasonable rate of return' on assets that ASA earned pre-COVID was around 8 per cent (ASA, 2020). Recent projections suggest ASA is aiming to return to a positive rate of return in the year ending June 30, 2026 (a projected 4 per cent return), then improving through to 2029 (10 per cent return in the 2028-29 financial year). The average projected return over the period 2025 to 2029 is around 5 per cent.

What we mean by a 'reasonable rate of return on assets' is essentially determined by the Commonwealth government in terms of what dividend it expects to be paid by ASA, which is part of the annual fiscal deliberations and varies with the political pressures the Government perceives.

In effect, the Federal government treats the air service charges that ASA levies as a source of tax revenue (above the cost of providing the services), although they are not constructed in that way in the public discourse.

7. Government constraints on ASA debt issuance

ASA's financial operations are constrained by the - *Public Governance, Performance and Accountability Act 2013* (PGPA Act) - which, among other goals, aims:

... to establish a coherent system of governance and accountability across Commonwealth entities;

... to establish a performance framework across Commonwealth entities ...

... to require Commonwealth companies to meet high standards of governance, performance and accountability

Within that legislative framework, the reality is that the Federal Finance Minister must approve any debt issued by ASA and also can impose restrictions on its capital expenditure. Thus, the capacity of ASA to invest in capacity improvements is a political consideration given that the Commonwealth government always has the capacity to inject equity into the service and can always guarantee the debt it issues.

Clause 1.28 of the Commonwealth government's so-called *Budget Process Operational Rules* discusses new policy proposals (NPPs):

All capital expenditure NPPs that entail purchase (including finance leases) of new assets, capital expenditure on existing assets or replacement of existing assets of more than \$15 million in any one financial year, or \$45 million in total over the Budget and forward years, that are funded from within existing capital expenditure estimates (including where this entails the drawdown of prior year appropriations), require an NPP and a business case as part of the costing (Department of Finance, 2023: 13)

Thus, there is a very bureaucratic process involved which is embedded in the annual fiscal deliberations by the Departments of Treasury and Finance.

Further, while the Department of Finance does not actually impose a maximum net gearing ratio (which is the total debt minus cash as a proportion of equity) on ASA, it does have to approve increases in that ratio.

Pre-COVID, the ratio was around 45 per cent and equity contributions from the federal government were significant. COVID was a disaster for the ASA's financial performance with airports closing for a lengthy time and undermining the revenue base of the statutory organisation.

Fee-paying traffic was 51 per cent lower in the 2021 financial year relative to 2019 and revenue slumped by 60 per cent (ASA, 2026b: 15). In the 2021-22 financial year, ASA recorded a net loss of \$A347.6 million whereas it has previously recorded profits (ASA, 2022: 44). The previous financial year (2020-21) it had recorded a net profit of \$A496.1 million.

While facing serious financial concerns as a result of the COVID impact, ASA assured the nation that it had 'a number of short and long-term debt facility arrangements in place, which will provide the ability to balance our short and long-term funding needs' (ASA, 2022: 44). This capacity included total unused debt facilities of \$A1,440 million as at June 30, 2022.

The question then arises is what has happened to those long-term debt facility arrangements that ASA assured the nation were in place and would ensure the long-term funding needs were met?

As a result of the increased debt that was issued by ASA to maintain its operations through this lean revenue period and limited equity injections by the Commonwealth, the net gearing ratio

has risen to 63 per cent (Kian, 2026). An evaluation of ASA's financial position in February 2026 reported that despite a modest performance since COVID (Kian, 2026):

- ... we do believe that the company would still be able to meet its obligations considering its sizeable undrawn credit facilities of AUD1.5 billion and government-backed status.
- Gearing is expected to stay elevated over the next 3 years. It should be eased when the projects are done before 2028 and start contributing to the group's revenue.
- Given its government-owned status and its role as Australia's sole aviation services provider, the risk of default is minimal.

These external assessments of the financial position of ASA run counter to the claims it makes in its Value-for-Money proposal.

Further, there is no debt limit imposed on ASA by the Commonwealth Department of Finance. But the Department appears to consider the S&P Global Ratings in its approval process in relation to new debt issues by ASA.

Here we encounter a rather farcical situation. S&P regularly publish a 'Stand-Alone Credit Profile (SACP)' for ASA, which assumes that there is no government support for ASA, despite it being 100-per cent owned and guaranteed by the Commonwealth government.

On January 13, 2026, S&P Global affirmed ASA's 'AAA' long-term and 'A-1+' short-term issuer credit ratings with a stable outlook' and the SACP at 'bb+' (S&P Global, 2026).

What meaning can we make of those rating assessments? It should be emphasised that there is no meaning to a standalone credit rating for an entity that is 100-per cent owned by the Commonwealth government.

In its report issued September 26, 2024, S&P Global admitted as much when it clarified the summary ratings (S&P Global, 2024):

The stable outlook reflects the outlook on AsA's sole owner, the government of Australia, and our expectation of an almost certain likelihood of extraordinary support if the company is under stress. Government support packages provided over 2020-2023 have strengthened the relationship between AsA and the sovereign. Given that airline activity has recovered back to pre-pandemic levels, we do not expect ongoing support from the government.

Given that we equalize the rating on AsA with that on Australia, changes in AsA's SACP would not affect the rating on the company.

Any change in the Australia sovereign rating or outlook would result in an identical action on the rating on AsA.

In other words, the S&P Global assessments of ASA tell us nothing important because the ASA's position just replicates the Commonwealth government's position. ASA can never become insolvent unless the government refused to guarantee it but that is never going to happen given the centrality of the statutory authority in the aviation sector.

We also note that the S&P Global rating of the Commonwealth government (as well as all the other ratings by other agencies of the Commonwealth) are also meaningless given that there is zero credit risk attached to debt issued by the Commonwealth government.

The ideological position is a different matter though. The Government hold the S&P Global and related ratings out as if they are significant in determining their fiscal positions. These ratings provide the Government with an 'external' justification for inflicting fiscal austerity,

despite the meaningless nature of the ratings. The inference that the Government likes to promote by quoting the SACP rating is that higher gearing levels in ASA will lead to a 'downgrade', which is constructed in the public discourse as a decline in confidence in the solvency of ASA.

The logic that is then followed is that this would require the Commonwealth to inject new ('bailout') equity to reduce the net gearing ratio, which it would then claim would compromise its fiscal position.

The reasoning is largely erroneous. Given ASA debt is guaranteed by the Commonwealth, and the ASA Board can choose a higher gearing ratio, and the projections for passenger traffic are so bright (according to ASA, 2026b), there is no reason that the Commonwealth would have to inject further equity to allow ASA to invest in capital renewal. That doesn't mean we consider such equity injections to be damaging to the Commonwealth – far from it.

ASA (2026b: 19) also claims that:

Airservices' (balance sheet) financial position requires that future capital expenditure is funded with higher proportions of equity – so as to return Airservices' leverage position within the Department of Finance guidelines (70%, compared to Airservices' current gearing ~85%).

There is no debt ceiling imposed on ASA by the Department of Finance. Any guidelines that are stated amount to voluntary constraints. In fact, the ASA Board sets the net gearing ratio target as part of its financial plan and there is no public evidence available to suggest the Department of Finance have ever overruled the Board's decisions in this respect. In that context, the statement that ASA's financial position requires future capital expenditure to be funded by equity increases is not an accurate depiction of the opportunities that ASA has available.

In its 2024-25 Annual Report (ASA, 2025: 79), we learn that:

For the financial year ended 30 June 2025, Airservices reported a net loss of \$237.1m, working capital deficiency of \$456.0m and negative operating cashflow position of \$140.0m ... The Board also has recently approved an increase in the gearing ratio to support Airservices' Capital Management.

The other claim by ASA is that it will be able to pay the 'tariff' to its strategic partner by exploiting higher revenues and what it says will be the 'Strategic Partner's lower cost of funds' (p.19). I consider that statement to be false. The private financier cannot borrow more cheaply than the Australian government and ASA shares the same debt ratings as the Commonwealth.

8. Simple Arithmetic

As the time of writing (mid-April 2026), the following facts are known:

- The Australian government's long-term borrowing rate (quoting 10-year bond yield) was 4.25 per cent on debt that was first issued on July 23, 2025, and will mature in October 2036, ISIN AU0000407256 (AOFM, 2026). The markets are now quoting that debt at yields of around 4.99 per cent.
- The equivalent yield for investment grade (around A-rated) debt issued by corporate borrowers (secured business lending rates) is around 6.15 per cent (RBA, 2026).
- The 'spread' between the government yield and the corporate rate is usually in the range of 2 per cent and arises because the government debt carries zero credit risk, while the credit risk associated with the corporate debt varies with the corporation.
- Private infrastructure investments have historically delivered strong, stable returns, with annualised returns of approximately 9.6 per cent since 2004. As of early 2026, investor expectations for private infrastructure equity returns are high, with many targeting over 11 per cent to 13.76 per cent (IFM Investors, 2026).

In September 2025, the large private infrastructure investor, Macquarie Bank (2025: 4) noted that:

Since 2004, private infrastructure has delivered an annualised return of 9.6%, which is slightly below the 10.4% for US equities (S&P 500® Index) and above the 8.9% for global equities (MSCI World Index) ... At the same time, the volatility of private infrastructure (9.5%) ... has been significantly lower than that of US equities (16.6%) and global equities (17.2%). Put simply, private infrastructure's risk-adjusted return delivery has been exceptional over the past two decades.

The report conjectures about the 'long-term outlook for private infrastructure returns' (p. 32) and suggests that outlook depends on the growth in EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), which, in turn, depends positively on inflation and GDP growth, with little impact coming from interest rate changes.

This means that the expectations of the private partner will be significantly influenced by the private rates of return that the market is delivering, which adds to the cost of the project.

What does that all mean?

1. The government can borrow funds at much lower rates than the private corporations can.
2. The private corporation has to generate a profit for its private shareholders, whereas the government entity does not really need to do that given its charter is to provide services to the public. The rate of return imposed on ASA by the Government to generate dividends that are transmitted back to Government are just another way of generating tax revenue.
3. The infrastructure investment required by ASA will be the same irrespective of who purchases it.

Ask the question: How can the private corporation provide that infrastructure more cheaply than the government providing it itself? The answer is that it cannot unless various artificial self-imposed constraints are placed on the government entity.

The nub of the issue can be summarised thus:

1. ASA is wholly government-owned, yet it claims in the VfM proposal that the owner will not provide sufficient funds for it to perform its statutory functions in a cost-efficient manner (despite the Commonwealth's responsibilities that are set out in the Air Services Act 1995).
2. The Government expects this service to the Australian community to be paid for by consumers of the services given that ASA must return any support it gets to the Government in the form of dividends.
3. The COVID-19 crisis altered the 'balance sheet' of ASA, which they now claim limits their ability to fund large-scale infrastructure investments. The policies that the government adopted early in the pandemic reduced the revenue-paying customers of ASA services significantly – reducing their income by 60 per cent (ASA, 2026b) and ate into their retained earnings buffer as it recorded operating losses.
4. To maintain operations, ASA took on increased debt (rising to a gearing level of 85 per cent) and reduced its 'standalone' credit rating to BB- but that rating is meaningless.
5. The 'balance sheet' issues are thus illusory given that the Federal government can remedy the capital situation whenever it chooses. Further, to repeat, ASA have the same credit rating on its debt as the Commonwealth.
6. ASA note that it is sensitive to what it calls 'political posturing' by the Government, which emphasises that this Strategic Partnership is not, in essence, a financial necessity, but is rather being driven by the political choices being made by government.
7. Those political choices, ultimately, impose on the Australian community a higher cost in this context than is necessary - yet the spin doctors in ASA are trying to claim this is a 'Value for Money' proposal - reconsider the simple arithmetic above.
8. Treating a 100 per-cent government-owned entity as if it is a private, shareholder-owned, for-profit corporation generates outcomes that are inevitably undesirable with respect to the government's charter of advancing beneficial services to the Australian community. It makes no sense to insist that ASA act as if it is a private, for-profit entity.

9 Extending the simple arithmetic

9.1 Introduction

In this Section we provide some financial modelling which reinforces the simple arithmetic outlined in Section 8. The more detailed financial modelling reinforces the conclusion that ASA's VfM proposal justification is at odds with market realities. Clearly, given the lack of transparency and accountability of the ASA proposal, which we discussed in Section 3 of this Report, we cannot perform a detailed and independent evaluation of the proposal. The secrecy surrounding the key parameters that would permit such an evaluation invokes a lack of trust in the veracity of the proposal.

That lack of trust is reinforced when we consider the simple arithmetic discussed in Section 8. In this Section we provide some modelling based on the existing market conditions in Australia. It cannot be definitive because we do not have the full information, but it does suggest that this proposal will be more costly than the so-called self-fund case.

9.1 Commonwealth Budget statements

In the 2019-20 Commonwealth Budget, the Australian government provided the following support to Airservices Australia:

It provided 'financial relief for the Australian domestic airline industry, including the refund of aviation fuel excise, rebate of domestic and regional aviation security charges and waiving or refunding of Airservices Australia charges levied on domestic commercial aircraft operators from 1 February to 31 December 2020' (Commonwealth, 2020: 212).

In the 2021-22 Commonwealth Budget, the Australian government noted it had provided several support measures to Airservices Australia including the extension of 'the partial waiver of Airservices Australia charges levied on operators of regular passenger transport and aeromedical air services for six months until 30 September 2021' (Commonwealth, 2021: 70).

The Australian government also provided:

\$550.0 million in 2020-21 to Airservices Australia to continue to provide critical air navigation, air traffic control, and aviation fire and rescue services at major Australian airports (Commonwealth, 2021: 70).

ASA acknowledged this support in its 2020-21 Annual Report noting that funding of (ASA, 2021: 44):

Government Grants received (\$550m) in late June 2021 through the Budget 2021-22 measures represented payments upfront to provide certainty for ongoing operations and planning, support the continued provision of critical air services and the waiver of domestic air services and provide reserves to support cash flow and management of supplier costs.

It also reported that (p.44):

Continued funding and support from the Department of Infrastructure, Transport, Regional Development and Communications. To date, the entity has received \$1,132m by way of government financial assistance for the financial year 2021 (2020-21), which includes an upfront payment of \$550m in late June 2021 to support ongoing provision of critical air services in future periods.

The vast proportion of these funds came from the allocations to the Commonwealth Department of Infrastructure, Transport, Regional Development and Communications

In the March 2022, the Treasurer announced that the Government would provide ‘an additional \$543.5 million over 2 years from 2021-22 to continue to support the aviation sector’ and this funding included (Commonwealth, 2022: 132):

\$495.0 million in 2022-23 as an equity investment to Airservices Australia to continue to provide critical air navigation, air traffic control, aviation, and fire and rescue services at major Australian airports.

The Australian government (2022: 132) noted that:

The cost of this measure will be partially met from within the existing resources of the Department of Infrastructure, Transport, Regional Development and Communications.

The reality is that the ‘cost of capital’ that ASA faces is not the commercial rate that a private corporation faces. Given current institutional practices, equity injections from the Government to ASA via the relevant federal portfolio will be matched by debt issuance via the Australian Office of Financial Management’s auction system. ASA’s debt also has the same status as Australian government debt.

While ASA has emphasised its BB- rating as a standalone entity and its potential difficulty in gaining finance from the commercial banking system, the fact remains that the Commonwealth could inject new equity at the going bond yield and/or ASA could issue debt at the Commonwealth’s going bond yield.

In correspondence from ASA to the UFUA Aviation Branch (March 12, 2026), ASA wrote that:

The value in the Strategic Partnership comes from the Strategic Partner’s ... access to capital, something Airservices currently does not have without breaching its gearing cap ...

Airservices’ gearing ratio is 84%, forecast to reach 89% by 30 June 2026. While the Department of Finance recommends 70% for Corporate Commonwealth Entities, the Board previously lifted its tolerance to 80% post-COVID and has now temporarily increased it to 90% due to current financial pressures. With gearing expected to hit 89%, Airservices has no remaining capacity to take on additional debt.

It must be emphasised that this gearing ratio is a voluntary constraint imposed by the Government on itself. It has no real foundation in economic theory given the Australian government is the issuer of the Australian currency. Further, such constraints should not be imposed in a hard and fast way, where such inflexibility would lead to the cost of delivering essential services and acquiring the related infrastructure being higher than otherwise. The fact that ASA’s Board ‘lifted its tolerance’ to a higher ratio during COVID indicates that such flexibility delivers benefits to the organisation, and, by implication to the Australian community.

ASA’s own assessment of the potential future growth in the aviation sector in Australia should instil confidence that the financial problems it encountered in the first few years of COVID will prove to be transient and its capacity to return to a profitable financial state (as pre-COVID) is highly likely.

In other words, it would be highly counterproductive for the Government not so support ASA’s required infrastructure investments either via an increased equity injection and/or a debt guarantee.

9.3 Model – assumptions and results

ASA (2026b: 21) describes an investment schema for fiscal year 2026 to fiscal year 2031, that it says would be implemented by the Strategic Partner (private investor). It compares that to a 10-year Self-Funding investment profile that reflects its claimed financial constraints. The two nominal expenditure streams sum in total to \$1,605 million.

Figure 9.1 Investment program, fiscal year 2026 to fiscal year 2035

Financial Year	Strategic Partner \$A millions	ASA \$A millions
FY26	100	58
FY27	256	90
FY28	434	154
FY29	414	225
FY30	250	260
FY31	151	250
FY32		218
FY33		154
FY34		109
FY35		87
Total	1,605	1,605

Source: ASA (2026b: 21).

The relevant comparison is to calculate the total costs (including interest payments) for the 6-year expenditure stream for the private investor and the Government.

It is a simple matter to analyse the six-year investment schedule by comparing the borrowing costs of the Government (given ASA AAA status) to a reasonable estimate of the private investor's WACC (weighted average cost of capital), which is the standard variable that is used in discounted cash flow analysis.

There are many factors that must be considered when considering an appropriate corporate WACC for investments in high-quality (low risk) public infrastructure, which impact on the range of WACCs that might be relevant.

We choose to simplify the analysis here and assume that the cost of capital to the Strategic Partner is 8 per cent (which is the cost of capital that ASA (2026: 19) reports). The literature on this topic provides a wide range of WACCs depending on the sector. Infrastructure Australia (2021) sets a general upper limit of 10 per cent but that figure may have changed given the movement in interest rates since that report was published. An 8 per cent cost of capital is a relatively conservative estimate. We can also abstract from the proportion of private equity and debt that is being used to fund the infrastructure expenditure by deploying a WACC (which considers both sources of funding).

As at the time of writing (April 26, 2026), the following Australian government bond yields were on offer:

- 5-year yield: 4.71 per cent

- 10-year yield: 4.97 per cent.

We can assume that the yields on new debt issued by the Commonwealth within these maturity ranges will be within those levels. We will adopt the conservative estimate for the actual cost of capital for ASA (that is, via Commonwealth guaranteed debt) of 5 per cent, which is at present the upper limit that we might expect for a 6-year debt profile.

We are comparing what it would cost to fund the 6-year expenditure profile outlined in Figure 9.1 under two options:

1. Government funded at the AAA bond rate of 5 per cent; and
2. Private funding under a WACC of 8 per cent.

The question then which option delivers the cheapest outcome? The answer to that question is derived by calculating the total payment obligation for the two options?

We assume that while the total nominal investment expenditure over the six years is \$1,605 million, yearly expenditure is borrowed when it occurs, and interest accrues until the end of Year 6. We assume then that earlier borrowings accumulate interest for longer than later borrowings. Table 9.1 presents the results.

Table 9.1 Comparison of the private versus government-funded investment streams

	Total Repayment Obligation after 6 years (\$m)
Government	1,811.1
Private Investor	1,945.9
Difference	134.8

Source: Author's calculations.

Since both parties must fund the same investment outlay profile, the only difference is the cost of capital applied to those outlays over time. A lower financing rate means that less interest accumulates on borrowed funds during the investment period and over the repayment period. The government therefore incurs a smaller total repayment obligation because each year's borrowing compounds at 5 per cent rather than 8 per cent.

In practical terms, the private provider must recover not only the infrastructure investment costs but also a higher required return to lenders and shareholders, making the privately financed option more expensive to the public purse or users over the life of the asset.

Our conclusion is that the private provider creates an additional financing burden of around 7.4 per cent more than direct government-financed provision solely because of the higher cost of capital.

That is, the direct government provision is \$135 million cheaper.

Some might argue that the present value of the two options (Government \$1,351.5 million compared to Private Investor \$1,226.2 million) should be considered. However, a present value comparison alone does not identify the cheaper option because it is an artefact of the different discount rates used to convert the future expenditure flows in present values.

When future expenditures are discounted at 5 per cent, the government's present value appears higher than if the same cash flows are discounted at 8 per cent for the private provider. This happens because a higher discount rate reduces the calculated present value of future cash flows

more aggressively. As a result, the private option can appear to have a lower present value even though it is more expensive to finance.

Thus, present value is not a direct measure of financing cost when different discount rates are used. Present value converts future dollars into today's dollars, but the discount rate itself embeds the cost of capital. Therefore, comparing present values calculated with different discount rates can be misleading. To determine which option is cheaper, the correct comparison is the future repayment cost or net financing burden, not simply the discounted present value of the same spending stream.

In summary, the government is the cheaper provider because it can access capital at a lower borrowing rate, reducing total interest costs.

Adding complexity to this modelling will not change that result. Clearly, imposing artificial constraints on the government option can alter the conclusion (for example, forcing ASA to have a higher borrowing rate). But then it should be made very clear to the public that the government is deliberately imposing a higher cost of service (which in this context ultimately is borne by the consumer of aviation services) that would be the case if it used its superior borrowing capacity to deliver the service at the cheapest possible price.

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