

FUNDING OPTIONS FOR INFRASTRUCTURE, 2010

In a recent study titled *Public Infrastructure Funding An International Perspective (2009)*, the Productivity Commission identified five sources of infrastructure funding without considering the specific issue of essential services. These sources are:

- General budget appropriations, including using revenue to service debt;
- Specific-purpose securitized borrowing;
- Off budget financing by GTEs;
- Development contributions; and
- PPPs.

It is noted that in Australia about 65 per cent of funding is through budget appropriations, the use of specific purpose borrowing has generally ceased and PPPs account for only about 5 per cent of the overall funding requirement. The study identifies the strengths and weaknesses of each funding arrangement without a general conclusion except that PPPs are identified as offering potential in terms of better project management and risk control.

For WA, the State Government has already indicated that it wants to develop the use of **PPPs** and has established a PPP Coordinating Committee independently of the planning strategic framework. Given that investment in land supply is to support the activities of companies in the resource sector it would not be unreasonable to expect those companies to bear the costs associated with the development as part of the project costs. One way to do this would be for the resource companies to fund the cost of the infrastructure according to the preferred PPP model. The approach would be project specific. As an instrument to support land availability the PPP strategic framework would need integration with the land use and development strategic framework.

Other sources of funding identified in the Productivity Commission's study remain problematic. First, the risk averse lending market and uncertain supply of funds would have an adverse impact on both specific purpose securitized borrowing and off-budget financing by GTEs. Second, two essential service providers – Alinta and Horizon Power – may have limited capacity in their balance sheets to undertake significant investment that would not generate strong returns in a clear timeframe. Third, development contributions in WA have only been recently introduced for collection by local government for community infrastructure and not essential services.

An extension of the use of **development contributions** in WA would be for the Government to introduce developer contributions **on a regional scale** to fund essential services. The success of such an initiative would depend on the timing of collections, the scale of development and development activity.

State Agreements also offer a potential vehicle to access funding for essential services. Some Agreements already include provision for specific contributions to infrastructure, either cash or in-kind but the capacity of State Agreements for this purpose has not been examined in a broader strategic context.

Betterment taxes are a potential source of funds in urban areas. A betterment tax applies when the value of land has increased due to rezoning or development (egg rezoning from rural to urban). This higher value is seen to be a windfall to the land owner, much like a capital gain. The tax may be applied at the time of increased value as an incentive for the owner to recoup the cost through the sale of the land. The use of the tax has been problematic (egg NSW) although the Victorian Government has recently introduced such a tax in the Melbourne urban boundary that is levied at the time of sale (the size of the tax impost has been the source of complaint).

Importantly, the various funding options strongly suggest the need for an integrated and strategic approach to infrastructure funding for essential services. None of the identified sources of funding in themselves necessarily address all of the characteristics identified above. In particular, a more certain funding and investment environment will give the private sector and community a greatly improved planning environment. Second, the economic importance of resource development to the State and national economies may require the Government to have the flexibility to undertake infrastructure development that has strong public interest criteria and was spatially efficient in terms of support for private sector investment rather than pure commercial criteria.

The **Royalties for Regions Scheme** deserves to be recognized as a potential source of funds for infrastructure investment. Through the Royalties for Regions Scheme, the equivalent of 25 per cent of the State's mining and onshore petroleum royalties will be returned to the State's regional areas as investment in infrastructure and community projects. An estimated \$2,362m is to be available under the Scheme. The Royalties for Regions Scheme is administered by the Department of Regional Development and Lands. Funds for each project are to be approved through the EERC and Cabinet process with the application of specific reporting and governance provisions.

The idea of using **superannuation money** to invest in infrastructure has been around for some time. The attraction is that super funds are typically long term investors looking for greater certainty and low volatility. Infrastructure fits these requirements. The problem is that most superannuation benefits are market-linked (that is, accumulation funds in which the level of benefits is determined by contributions plus investment income less administration costs) and trustee boards have a legal and fiduciary responsibility to pursue the highest market returns balanced against a reasonable level of risk. One exception is defined benefit schemes, in which the benefits not market-linked.

In defined benefit schemes benefits are salary linked (i.e. defined by salary, contribution and service). By way of example, **the Gold State Scheme** administered by the GESB for WA public servants is one such scheme. The scheme has about \$2 billion in assets and provides superannuation to about 20,000 public sector employees. The Scheme was closed to new members in 1995. The Scheme is designed on a CPI +2 per cent investment performance and a CPI + 1 per cent salary inflation. That is, the investment return has to only exceed the growth in salaries by 1 per centum for the Scheme to remain solvent and viable.

As an infrastructure fund, the Gold State Scheme could set out to meet some of the funding characteristics noted above. In particular, such an arrangement would give greater certainty to the planning and investment processes, provide a dedicated focus on infrastructure needs and potentially give GTEs access to off-balance sheet funding or direct capital injection. Various options exist to leverage Gold State monies for infrastructure purposes. Two examples would be for the Scheme to subscribe to or underwrite infrastructure bonds issues by Treasury Corporation or invest in securities issued by GTEs.

The State Government currently has a review of the GESB as part of the review of the mutualisation proposal and the matter could be considered in that context.

INFRASTRUCTURE COORDINATING COMMITTEE

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DATE: 26 July 2010

