Chapter 5
Infrastructure funding

5.1 This chapter discusses the diversification of funding sources available; and the two principal sources of funding particular to infrastructure: land-based taxation and user pays mechanisms.

Diversification

5.2 Infrastructure Australia's (IA) 2016 Infrastructure Plan, recognised that Australia's immediate and longer term infrastructure shortfall will require the use of a diversity of funding sources:

> The scale of the funding required will be beyond one tier of government and beyond the revenue-generating capacity of existing user charging structures. Accordingly, we must diversify the pool of funding available for public infrastructure investment.[1]

5.3 Mr Adrian Dwyer, Executive Director, Policy and Research, IA, emphasised the need to consider a multitude of funding sources for infrastructure:

> It is the diversity of potential revenue streams….but some of the realities we discussed earlier around the level of funding required to meet the challenges means that we have to exploit all of the available funding opportunities for infrastructure.[2]

5.4 Professor John Hewson, agreed that the infrastructure requirements of the economy are significant and:

> They are very difficult to fund, given the current and prospective budgetary circumstances. So, I think we need to start to think outside the square as to how we might actually fund what is going to be a very significant infrastructure requirement over the next several decades.[3]

5.5 However, Professor Phillip O'Neill, Director, Centre for Western Sydney, University of Sydney, stated that there are only two primary sources of funding but that these are often combined:

> To pay the cost of capital it needs to be funded from some source. Crudely, we fund either from taxation, or user pays. I am not sure that I could nominate any exceptions to those two sources. We live in a world now where infrastructure provision is a hybrid sector. Governments are involved around the world at all levels and so is the private sector.[4]

---

1 Infrastructure Australia, *Australian Infrastructure Plan – Priorities and reforms for our nation's future* (2016) – Report, p. 90.

2 *Proof Committee Hansard*, 1 March 2016, p. 9.

3 *Committee Hansard*, 14 August 2015, p. 25.

4 *Committee Hansard*, 14 August 2015, p. 9.

5.6 Dr Robert Bianchi, Associate Professor of Finance at Griffith University, also drew out this contrast and summarised the suitability of either taxation and user pays to fund infrastructure depending on the nature of the project:

> (i) funding source from government in the form of availability payments to the infrastructure project. This funding mechanism is employed when there is no capacity to charge or measure the use of the infrastructure investment. This type of funding mechanism can be used to maintain the long-term investment in government initiatives including government owned state schools, hospitals, and court houses, etc.
>
> (ii) funding source determined by market based mechanisms (i.e. a user pay system such as tolls, levies or taxes). Examples include toll roads and university student accommodation. Under this structure, demand risk is clear and present in the funding cash flows which ultimately determines the value of the debt and equity finance that underpins the infrastructure project.[5]

Broad based-taxation

5.7 Consideration of the structure and level of Commonwealth taxation is beyond the scope of this inquiry. As such, detailed consideration of taxation has been restricted to value capture—land based taxation—measures.

5.8 However, the federal government is assumed to provide the bulk of the balance of funding not provided directly for an infrastructure project from value capture or user pays mechanisms.

5.9 Funding is provided by the Commonwealth to state and local government through specific purpose payments (SPPs).[6] SPPs are grants made by the Commonwealth to states and territories for key service delivery purposes. The grants place conditions on spending.[7]

5.10 Many infrastructure grants are tied to National Partnership Agreements (NPAs). NPAs are agreements between the Commonwealth and jurisdictions that define mutually shared goals to ensure all participants are committed to the same policy development, implementation and assessment frameworks. NPAs often contain funding agreements between the Commonwealth and states and territories for particular projects.[8]

---

5 *Submission 66*, pp 12-13.

6 Richard Webb, *The Commonwealth Government's Role in Infrastructure Provision*, Parliamentary Library Research Paper no. 8, 2003-04 (2004).

7 Infrastructure NPAs can be found on the Council on Federal Financial Relations website www.federalfinancialrelations.gov.au/content/npa/infrastructure.aspx (accessed 8 September 2015).

8 COAG, *The Federal Financial Relations Framework* at www.coag.gov.au/the_federal_financial_relations_framework (accessed 8 September 2015).

Asset recycling

5.11 The Asset Recycling Initiative was approved by the Commonwealth and all states and territories on 2 May 2014,[9] with $5 billion available on a first-come-first-served basis.[10] Under the Asset Recycling Initiative, states and territories selling approved assets receive a further 15 per cent of the sale value as a bonus payment from the Commonwealth, on the condition that the money is invested in new infrastructure.[11]

5.12 Two jurisdictions have benefited from this agreement to date. In early 2015 the ACT government announced it would use the scheme to raise capital for its light rail system from the sale of the betting agency ACTTAB, government buildings and public housing assets.[12] NSW has also taken advantage of the scheme through the privatisation of its leased electricity networks, for a range of infrastructure projects.[13]

5.13 IA's 2016 Infrastructure Plan recommended that asset recycling should continue to fund infrastructure, as:

> …asset recycling has offered a catch-up funding mechanism for infrastructure investment, but one that will need to be supported by broader reform to maintain sustainable funding over the longer term.[14]

5.14 Ms Jane McGill, Senior Policy Adviser Infrastructure, Industry Super Australia, welcomed Asset Recycling:

> We are delighted that the government has introduced the Asset Recycling Initiative, because we have actually managed to get some assets into the marketplace, and that creates opportunities for the funds…[15]

5.15 However, Mr Craig Michaels, Sovereign Ratings, Standard & Poor's Ratings, explained that Asset Recycling 'is really just swapping one commercially-viable asset

---

9 Through the National Partnership Agreement on Asset Recycling. See COAG, National Partnership Agreement on Asset Recycling (2 May 2014) at www.coag.gov.au/sites/default/files/Signed%20National%20Partnership%20(without%20Att%20A).pdf (accessed 15 September 2015).

10 The Hon Joe Hockey MP, '$2billion Asset Recycling deal to rebuild NSW', *Media release*, 8 March 2015.

11 'Infrastructure Growth Package - Asset Recycling Fund' in *Commonwealth Budget 2014-15, Budget Measures: Budget Papers No. 2*, p. 114.

12 Tom McIlroy, 'Asset sales reap $60 million from Abbott government for Canberra light rail' in *Canberra Times*, 19 February 2015 at www.canberratimes.com.au/act-news/asset-sales-reap-60-million-from-abbott-government-for-canberra-light-rail-20150219-13j3hg.html (accessed 8 September 2015).

13 NSW Government, 'Rebuilding NSW' at www.nsw.gov.au/rebuilding (accessed 8 September 2015).

14 Infrastructure Australia, *Australian Infrastructure Plan – Priorities and reforms for our nation's future* (2016) – Report, p. 90.

15 *Committee Hansard*, 5 November 2015, p. 7.

for another one'.[16] Mr Michaels went on describe the implications of the choice for government about where to spend the proceeds of Asset Recycling:

> They are changing their position but are they making them work by still providing flexibility down the track or are they spending the money on services or paying down debt? Paying down debt does not necessarily restrict their flexibility but if they are spending it on services then obviously that would.[17]

Value capture

5.16 Value capture refers to an array of measures that raise funds by taxing private beneficiaries—landowners—who are impacted upon by their proximity or access to infrastructure.

5.17 A number of witnesses argued for some form of value capture to be included in the mix of options to fund public infrastructure.[18]

5.18 Mr Martin Locke appearing in a private capacity, suggested that value capture had the capacity to be another funding source of public infrastructure:

> Value capture can actually be perceived as being a potential third source to augment what is paid by users or what is provided by government through taxation. Value capture is really trying to say if there is an uplift in value to other third parties by putting in place an infrastructure project, why don't we try to put in place some structures to try to capture some of that value that they otherwise receive as a windfall gain and try to reinvest that back into the original infrastructure investment.[19]

5.19 Mr John Lawrence proposed making value capture a condition of government infrastructure investment:

> Capturing some of the increased value that flows from infrastructure spending should be a condition if the federal government borrows to fund infrastructure spending by the states. The system of value capture needs to be coordinated across the three levels of government. Big infrastructure projects could be financed by the federal government and the rest should come from value capture at the state and local government level.[20]

5.20 Mr Karl Fitzgerald, Project Director from Prosper Australia, provided historical examples of the use of value capture for specific infrastructure projects in Australia:

> Going back 100-odd years, the formation of Canberra was based on a wider version of value capture with their leasehold model. Every 20 years the land

---

16 *Committee Hansard*, 5 November 2015, p. 20.

17 *Committee Hansard*, 5 November 2015, p. 20.

18 See for example: *Committee Hansard*, 9 October 2015, p. 4, p. 19, p. 27; *Committee Hansard*, 6 November 2015, p. 37.

19 *Committee Hansard*, 14 August 2015, p. 34.

20 *Proof Committee Hansard*, 14 April 2016, p. 14.

> was revalued and that lease payment that went under the freehold system to government helped to finance infrastructure. It is not well-known enough, but about 30 per cent of the Sydney Harbour Bridge was financed using value capture from the incredible uplift in land values for those on the North Shore.
>
> … in Melbourne there was the Melbourne City Loop. The first City Loop tunnel had a 25 per cent value-capture-type funding arrangement via the council rates surrounding Flagstaff Gardens there.[21]

5.21 Mr Fitzgerald also pointed to overseas examples where value capture has played an important role in accelerating the rate of infrastructure provision:

> We have seen and noted historical examples in Hong Kong and Japan, through to recent examples in London, with the London Crossrail tunnel, and through Washington, with their Rhode Island extension. And there is New York, their No. 7 train line extension.[22]

5.22 The recently released Infrastructure Plan from IA supported the use value capture and recommended that 'Governments should routinely consider value capture opportunities in all future public infrastructure'.[23] Mr Dwyer outlined the need to consider projects and funding simultaneously:

> We have said that one approach to value capture would be to require the projects seeking Commonwealth investment to have demonstrated a consideration of value capture [and] if not, why not approach to the implementation of value capture. That is a project conditionality lever that the Commonwealth could use to ensure that there has been fair consideration of a multitude of funding sources for infrastructure.[24]

5.23 Dr Joseph Drew, Research Fellow, Centre for Local Government, University of New England explained value capture as matter of cost allocation:

> …we also need to make sure that the people who are benefiting from development are bearing some of the costs associated with the development. We also need to make sure that if there is a private benefit associated with some sort of infrastructure then the people that get that benefit pay a little bit extra.[25]

Land tax

5.24 The simplest form of value capture is a tax on the unimproved value of land. This is known variably as a 'land tax', 'site value fee' or 'betterment levy'.

---

21 *Committee Hansard,* 5 November 2015, p. 42.

22 *Committee Hansard*, 5 November 2015, p. 42. Other examples are included in Infrastructure Australia, Infrastructure Plan, February 2016, p. 94.

23 Infrastructure Australia, Infrastructure Plan, February 2016, p. 94.

24 *Proof Committee Hansard,* 1 March 2016, p. 9.

25 *Committee Hansard,* 14 August 2015, p. 22.

5.25 The Productivity Commission (PC) Report noted that '…the underlying logic of betterment levies is that the benefits from local infrastructure are reflected in higher property values and business activity' and that 'it provides a means of readily capturing part of those benefits to fund infrastructure.'[26]

5.26 Dr James McIntosh, Director of LUTI Consulting used an economic model of Sydney to show the committee that infrastructure investment over time lift land values in the surrounding markets:

> It is a threefold, basically. You get, what is called, the monetisation of accessibility. So as people have access to the infrastructure, they say: 'It's going to save time; therefore, I will raise my willingness to pay for proximity and I will pay a bit more to live there.' They may rent an apartment that is normally $700 a week, but if it is near a train station, they will say, 'It's probably going to save me a hundred dollars a week in the cost of a car, so I will pay $800 a week.'[27]

5.27 The Australian Government's 2015 Tax Discussion Paper provided results of Treasury modelling showing that land tax was the most economically efficient of the five major Australian taxes modelled; and that stamp duty on property transfer was the most inefficient.[28]

5.28 Betterment levies have been used around the world:

> There is a long history of betterment levies being used to fund infrastructure in Australia…They have also been used overseas, such as in Denmark, Japan, Spain and the United Kingdom…[29]

5.29 Mr Locke informed the committee that more recently a betterment tax had been used to co-finance the Gold Coast light rail project:

> Another option is what is called a betterment levy, and a betterment levy is exactly what was done on the Gold Coast. You agree with local government how a rate levy can be imposed on rate users [from rate payers or local businesses] to fund the piece of infrastructure….[30]

5.30 Prosper Australia's submission detailed that land taxes could either be broad based 'with the market valuation acting as a proximity vote to effective infrastructure'; or 'limited to a set geographical region surrounding a new infrastructure assessment district.'[31]

5.31 Prosper Australia raised issues of politicisation and equity in establishing boundaries for geographically limited land taxes:

---

26 Productivity Commission, (2014), Public Infrastructure, Inquiry Report No. 71, p. 163.

27 *Committee Hansard*, 6 November 2015, p. 36.

28 Australian Government, *Re: think: Tax discussion paper* (March 2015), p. 25.

29 Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71 (2014), p. 163.

30 *Committee Hansard*, 14 August 2015, p. 38.

31 *Submission 67*, p. 3.

> The political machinations are also complicated with assessment districts, with controversy centring on the last property inside the VC assessment district and the property just outside it. One can expect those outside the district to enjoy a free ride on those taxpayers contributing to the project. Additional factors supporting a wider VC net include those property owners commuting to and from work through the region. Their property values will also increase, but at a lesser rate.[32]

5.32 The PC concluded that:

> …betterment levies may be appropriate when infrastructure has diffuse benefits on land values, and these are substantial and quantifiable. However, there are a number of practical challenges in setting such levies. Moreover, experience with betterment levies being removed prematurely raises doubts about whether they can be a genuine funding source over an extended period. Nevertheless, betterment levies should be considered as a potential funding source when a project has a sizeable group of beneficiaries beyond users.[33]

Tax increment financing

5.33 Tax increment financing (TIF) is another value capture mechanism. The PC report explained that TIF*:*

> …uses the expected increase in property tax revenue as security to finance the infrastructure. This involves hypothecating a portion of future revenue from property taxes to underwrite loans and/or bonds that finance a project. The hypothecation usually ends after a fixed period, such as 25 years.[34]

5.34 Further, Mr Locke explained that TIF is a concept whereby you simply say:

> 'If we build a piece of infrastructure, it is going to create value, and coming out of that value there are going to be higher tax streams that are going to flow from that development, whether those taxes are land taxes, income taxes, capital gains et cetera.' The concept in the United States is to designate a tax increment financing district to try to ring fence it, and then to ring fence the incremental tax revenues that arise as a result of that infrastructure development. On the back of those forecast revenue streams, the TIF district raises a bond up front with support from government, and the source of repayment of that bond is this stream of incremental tax revenue.[35]

5.35 Professor Peter Newman, Professor of Sustainability, from the Sustainability Policy Institute, Curtin University, told the committee that many states in the US have

---

32 *Submission 67*, pp. 3-4.

33 Productivity Commission, *Public Infrastructure*, *Inquiry Report No. 71* (2014), Volume 1, p. 165.

34 Productivity Commission, *Public Infrastructure*, *Inquiry Report No. 71* (2014), Volume 1 p 165.

35 *Committee Hansard*, 14 August 2015, p. 38.

used TIF to fund public infrastructure. Portland has built its light rail using various financing mechanisms including TIF:

> One part of it—the most recent part—is a privately funded light rail that goes to the Pearl District. The Pearl District was a run-down area that needed regenerating. All the developers realised that they would not be able to get anything like the return they would like to enable that redevelopment unless they had light rail. So they pooled together and the local council was able to put a governance structure around it and created this opportunity. It has been incredibly successful.[36]

5.36 Mr Lino Iacomella, Executive Director of the Property Council of Australia (WA), similarly expressed support for TIF as well as infrastructure bonds:

> …we would like to say that the Property Council of course support alternative infrastructure funding mechanisms – particularly the introduction of infrastructure bonds and what we know of as tax or incremental financing as two examples of that.[37]

5.37 The Planning and Transport Research Centre (PATREC) acknowledged the uncertainty of future property taxes. Nevertheless PATREC argued that TIF and land use planning should be used in combination with other mechanisms:

> A transport project will always affect nearby property values. However, the final impact on property values is in part a result of the land use planning for the surrounding areas. For example, around rail stations planning can encourage higher residential and commercial densities. Along the MAX light rail route there was planning for higher residential, commercial and retail densities. These planning changes affect property prices and consequential tax revenues. On this basis, tax increment funding should realistically be in all financing plans for major infrastructure investments supported by land use planning.[38]

5.38 Local government suggested that TIF is well suited to regional capitals and should be considered. Mr Sean Cameron, Manager Economic Development, City of Ballarat, explained that TIF is against a projection of population growth which can be accurately forecasted.

> We have been just over that two per cent for quite a while now. We know that we have got the planning approval in place where we can maintain it for the next 15 to 20 years. So if we are able to borrow against that future rate or income, we are spending current residents' dollars on infrastructure for future residents—
>
> …

36 *Committee Hansard*, 9 October 2015, p. 14.

37 *Committee Hansard*, 9 October 2015, p. 36.

38 Planning and Transport Research Centre (2014), Review of Infrastructure Financing Options for Transport in Western Australia, pp. 55-56.

> and there is a risk in that because we are doing that in the future and we might not get the growth and things like that. If a council has not got that planning correct, that is where the risk is and that is where we need to be careful about it.[39]

5.39 The PC took a cautious view of using TIF, as:

> …[a]mong other things, it requires full consideration of the risks involved in underwriting debt with an uncertain increase in future property taxes.[40]

5.40 These concerns were echoed by Dr Paul McLeod, Research Program Leader, PATREC, University of Western Australia, when he emphasised that government needs to consider risk when implementing value capture:

> Consider a project like a light rail project. If you are going to have value capture, you can do it in one of two ways: you can allow the natural increase in land values and property values to feed through the property tax system to become a ring-fenced funding mechanism for the project, or you can do what many people talk about, which is promoting higher densities along the route—promoting more residential development and more commercial development. One of the things that often happen is that people talk about that as if it will happen and it is guaranteed to happen, but there is some risk that it will not happen. So, if we are going to do value capture, I think we ought to put it in the same risk management framework as everything else.[41]

5.41 Using the Mirrabooka light rail project in Perth as an example, Dr McLeod articulated that with proper planning you would expect more people to live along the route, and higher residential densities.

> You might expect more people to locate businesses along the route, and that would generate value capture, and you could contemplate contributing some of that to the project. But if Planning then says, 'At Innaloo, not too far away, we're going to allow—because a proponent wishes to do so—a very large number of additional apartments, a very large number of additional shops,' that becomes competitive. In the short run, the one may compete with the other and slow down the process of value capture, which is a risk.[42]

Local government rates

5.42 Council rates are form of property tax and make up half of local governments' revenue.[43] However, Australian local governments use a mix of valuation methods to rate properties, with methods varying within and between states.[44]

---

39 *Committee Hansard*, 5 November 2015, p. 33.

40 Productivity Commission, *Public Infrastructure, Inquiry Report No. 71 (2014)*, p. 166-167.

41 *Committee Hansard*, 9 October 2015, p. 28.

42 *Committee Hansard*, 9 October 2015, p. 28.

43 See: http://knowyourcouncil.vic.gov.au/guide-to-councils/finance-and-planning/rates-and-charges (accessed 17 March 2016).

5.43 A number of councils use a form of improved value of the land that includes the value of development on the land as well as the value of the land itself.[45] The 2009 Henry Tax Review noted that:

> …the efficiency of council rates is likely to be reduced in councils that use improved values to assess the tax, as this discourages capital improvements.[46]

5.44 Mr Fitzgerald explained that capital improved valuation methods can provide perverse incentives because 'if you improve your building you are up for higher rates, and we would really like to see that change.'[47] Further:

> Distortions can impede the value capture process by levying on the building only. Such imperfections lead to a value transfer, rather than a value capture. It is a transfer because the levy is based on the productive building (the bigger, the more they pay) rather than the locational benefits of land.[48]

5.45 Mayor Kirstie Johnston, appearing in a private capacity, informed the committee that local governments experienced difficultly attaching additional levies and raising rates. Areas requiring the highest level of infrastructure development were often the municipalities that have high levels of disadvantage and local government is cognisant of the need to ensure that they are not further disadvantaged.[49]

5.46 Additionally, Mayor Johnston outlined that some local councils did not fund additional infrastructure projects, as they did not perceive that the cost and maintenance of extra infrastructure would be sustainable for ratepayers:

> We have cut right back to try to achieve our goals of breaking even by 2016-17 in our investment in infrastructure of our own assets. We are certainly not in a position to invest in the future – medium and short term – in anything else.[50]

5.47 Alderman Sue Hickey, Chair of the Southern Tasmanian Councils Authority, expressed that while the mandate of local governments to provide public infrastructure had increased, the rateable base had not grown sufficiently to fund infrastructure:

> There is more and more pressure on local government to do more and more things. We are in health space in the capital city. We are in youth space. We

---

44 Australian Government, *Australia's future tax system: Report to the Treasurer – Part Two: Detailed analysis*, (December 2009), p. 258.

45 Australian Government, *Australia's future tax system: Report to the Treasurer – Part Two: Detailed analysis*, (December 2009), P. 258

46 Australian Government, *Australia's future tax system: Report to the Treasurer – Part Two: Detailed analysis*, (December 2009), P. 258

47 *Committee Hansard*, 5 November 2015, p. 45.

48 *Submission 67*, p. 3.

49 *Committee Hansard*, 6 November 2015, p. 5.

50 *Committee Hansard*, 6 November 2015, p. 7-8.

> are in homelessness. All of these things that we are inheriting, and there is only so much money you can get from the ratepayer.[51]

5.48 Councillor Deirdre Flint OAM, outlined that councils voluntarily freeze revenue in times of hardship. This adds another layer of difficulty raising infrastructure funding:

> I would emphasise that our council, back in 2000, decided to freeze the rates because of the drought that we had in Tasmania. It was very severe. They said they would not put up any rates and they were frozen for two years. Our council is still suffering from that. It should have, at least, gone up with the cost of living. You really do not recover.[52]

5.49 Miss Catherine Cashmore, President, Prosper Australia spoke about how the current system for ratepayers is not sustainable and that value capture should be used for infrastructure financing:

> …because the cost is being reaped back from the land values there tends to be much more efficiency in the benefits that the infrastructure will actually create ahead of time. More so than we see now you make sure that the infrastructure is going to benefit the community best, and you get more community involvement in that and more acceptance from the community about the infrastructure that is going in and that is going to provide them with those benefits if they are going to be paid back out of the value capture in their land values.[53]

5.50 Mr Michael Foley, Chief Executive Officer, City of Swan, highlighted that outer growth areas have rates that are 30 per cent higher than their inner city counterparts to provide for the growth and new facilities.[54]

User pays

5.51 In its 2016 Infrastructure Plan, IA contended that user pays needs to be better utilised in Australia, as:

> We have a fairly low cost recovery from public transport in Australia. It is about 20 to 25 per cent. If you look at our international peers, Auckland has about 44 per cent cost recovery from the user and 56 from the taxpayer. We are more like 20 or 25 per cent from the user and 80 per cent from the taxpayer.[55]

5.52 IA outlined that strong user pays infrastructure tends to have lower maintenance deficits:

> What we found is that those infrastructure sectors where there is a higher degree of market maturity tended to display lower incidences of a

51 *Committee Hansard*, 6 November 2015, p. 17.

52 *Committee Hansard*, 6 November 2015, p. 20.

53 *Committee Hansard*, 5 November 2015, p. 43.

54 *Committee Hansard*, 9 October 2015, p. 6.

55 *Committee Hansard*, 1 March 2016, p. 7.

> maintenance gap. In those where you have a more mature market structure, so a greater degree of user-pays and a better matching between what users pay and what they consume, you tend to have that lower incidence of maintenance gap. [56]

5.53 Mr Ben Johnston, President of the Hobart Northern Suburbs Rail Action Group outlined that user pays is a funding mechanism to mitigate government expenses as 'no public transport outfit in the world makes a profit'.[57]

Direct user pays

5.54 The PC reported that participants in their inquiry generally supported the consideration of more direct user charging for light vehicles. The Transport Reform Network[58] argued:

> …our fundamental thinking about roads needs to change. Roads are a utility — not unlike water and electricity — and we should charge accordingly … A more direct, user-pays approach would ensure that all of us pay a fair price for our use of the system…A new approach to road access pricing also creates the opportunity to establish a sustainable revenue source for the funding of transport infrastructure and services.[59]

5.55 The PC concluded:

> The Commission considers that, ideally, a unified system of direct road user charging would be developed for all vehicle types, rather than on a piecemeal basis. As noted above, light and heavy vehicles usually share the same infrastructure, and the associated costs — such as for traffic lights — are often common to all vehicles. Timing may be different for the take-up of such an option, both between different classes of road users and by location, but should proceed as a collective development among road users. The ultimate objective remains to use charges to link users with subsequent resource allocation (that is, project selection).[60]

5.56 In its recent Infrastructure Plan, IA supported a user pays approach for road networks:

> On road networks, the transition to a more user pays approach would allow charging to be linked to funding and supply to be linked to demand. This will be fundamental to securing the required funding and sustainably improving the level of service.[61]

5.57 IA also found the markets where there is a high degree of user pays tend to have lower maintenance deficits. Mr Dwyer stated:

---

56 *Proof Committee Hansard,* 1 March 2016, p. 8.

57 *Committee Hansard,* 6 November 2015, p. 48.

58 Productivity Commission iniquity, *Submission 54*, pp 5-6.

59 Productivity Commission, *Public Infrastructure, Inquiry Report No. 71 (2014),* p. 153.

60 Productivity Commission, *Public Infrastructure, Inquiry Report No. 71 (2014),* p. 154.

61 Infrastructure Australia, Infrastructure Plan, February 2016, p. 9.

> What we found is that those infrastructure sectors where there is a higher degree of market maturity tended to display lower incidences of a maintenance gap. In those where you have a more mature market structure, so a greater degree of user-pays and a better matching between what users pay and what they consume, you tend to have that lower incidence of maintenance gap. Where there is a poorer connection you have a higher incidence of maintenance. For instance, regional potable water is an area where there are clear maintenance deficiencies in some circumstances. That is a market where there are less mature market structures as opposed to something like mobile telecommunications where there is a high degree of market maturity and where we do not see any exhibits of maintenance.[62]

5.58 Mr Anthony Schinck, Chief Executive Officer of the City of Ballarat, explained that there are constraints on local government's access to user pays funding. Local government relies on rates (a property tax) and federal government assistance:

> Our revenues in terms of fee-for-service are often constrained by limitations that are set in statute and where we tend to no longer be active as a tier of government is in mature parts of the economy or services sector where other private providers can act. In fact, only about 25 per cent of our overall revenue is earned from fees, charges, fees for services and fines. The remaining part of our revenue is all generated from rates, which only represents about 50 per cent of our overall revenue, and the remaining portions are from state and federal government forms of funding and investment.[63]

62 *Proof Committee Hansard*, 1 March 2016, p. 8.

63 *Committee Hansard*, 5 November 2015, p. 27.