3

Funding and financing

3.1 Consideration of innovative options to procure infrastructure funding and finance has been necessitated by pressures on government revenue and estimated future infrastructure deficits. The development of 'alternative' funding and financing models has the potential to grow the pool of available funds. In this regard, Infrastructure Australia told the Committee that the private sector is 'very keen to get involved' and that:

> The only barrier to more private investment and involvement in infrastructure is for governments to open up projects to that investment. At the moment about 15 per cent of public infrastructure is opened up to private investment though the PPP stream. We would like to think that could be broadened.[1]

3.2 Infrastructure in Australia is predominately funded either by public finance or direct user charges.[2] 'Funding' refers to how a project is paid for, while 'financing' refers to how debt or equity is raised to deliver and operate a project.[3]

3.3 The Productivity Commission's report examined four funding mechanisms — user charges, value-capture approaches, developer contributions and government funding.[4] The Commission concluded that direct user charges should be the norm for funding infrastructure. However, it was acknowledged that governments will have to continue to partly fund some roads, public transport and social infrastructure. In

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1 Mr Rory Brennan, Infrastructure Australia, *Committee Hansard*, 4 June 2014, p. 4.

2 Consult Australia, *Submission 2*, p. 2.

3 Industry Super Australia, *Submission 12*, pp. 4–5.

4 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, pp. 141–75.

relation to sourcing government funding, the Commission argued that it should come from 'broad-based taxes on income, consumption or land because such taxes have lower efficiency costs'.[5]

3.4 While cautioning its limits, the Commission's report stressed the growing role of private sector involvement in financing public infrastructure. In general terms there are three main types of private sector finance—debt finance, equity finance and hybrid instruments.[6] The Commission investigated some direct and indirect financing sources including public private partnerships (PPP), debt or equity finance, the bond market and superannuation funds.[7] It then reviewed ways to enhance financing options including subsidising private finance, superannuation fund liquidity issues, distorted incentives in the procurement process and capital recycling.

3.5 While cognisant of the detailed work undertaken by the Productivity Commission, the Committee believes there is room to isolate and further explore some of the funding and financing options including private-public partnerships arrangements, user charges, inverted bidding, debt financing, bonds and asset recycling.

Public private partnerships

3.6 There are many PPP models and the contract-types range from 'design build', 'operate maintain', 'design build operate', 'build own operate transfer', 'lease own operate' and 'alliance'.[8] As Industry Super Australia explained:

> PPPs typically involve a partnership between the public and private sector where the private sector is contracted to design, build, operate and manage and, most importantly, finance new infrastructure or services and meet government obligations for a set period of time (typically 20 to 30 years). Included in the contract is the right to receive payments from the government and/or charge users of the facility a fee (a toll in the case of roads)

5 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 141.

6 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, pp. 182–3

7 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, pp. 177–205.

8 Industry Super Australia, *Submission 12*, p. 7.

> in order to recover the costs of construction, operation and maintenance.[9]

3.7 PPPs account for a small share of the total investment in Australian public infrastructure.[10] In 2010, 65 per cent of infrastructure was government funded while PPPs accounted for only 5 per cent of the overall funding requirement.[11] According to the Victorian Government:

> … PPPs represent an appropriate financing mechanism; however they do not provide a funding source for infrastructure projects. Except in circumstances where PPP projects are fully funded by user charges, for example toll roads, funding responsibility remains with government.[12]

3.8 The Chamber of Minerals and Energy of Western Australia (CME) outlined four 'hybrid models' to encourage PPPs — viability gap funding, minimum guarantees, existing revenue streams as a funding source and delaying demand risk transfer. The CME argued that these models could increase a project's viability, secure private finance and reduce the fiscal strain on governments.[13]

3.9 Industry Super Australia argued that, in a post-GFC environment, PPP models are not structured to attract long-term investors. It was posited that such 'deals' are 'characterised by steep upfront fees stripped out by the bid sponsors, presenting dubious value for residual equity players, and high levels of debt financing'.[14]

User charging

3.10 The Productivity Commission has argued that '[d]irect user charges (prices) should be the default option because they can provide an incentive for efficient provision and use of infrastructure'.[15] There are many services, and associated infrastructure, that the community directly pay for, as Engineers Australia told the Committee:

9 Industry Super Australia, *Submission 12*, p. 6.

10 Industry Super Australia, *Submission 12*, p. 8.

11 Association of Mining and Exploration Companies, *Submission 10.2*, p. [1].

12 Victorian Government, *Submission 28*, p. 9.

13 Chamber of Minerals and Energy of Western Australia, *Submission 3*, p. 8.

14 Industry Super Australia, *Submission 12*, p. 21.

15 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 141.

> The user pays principle is out there in many infrastructure services. We pay electricity bills. We pay water bills. We pay sewerage bills. But the arrangements for user pays are often not commercial.[16]

3.11 Where a 'natural monopoly' occurs, the government can retain oversight of user charges. This currently occurs in the form of price monitoring and regulation, and access regimes.[17] The aim is to ensure owners do not excessively inflate the price of a service, and in effect the measures act to keep prices contained and promote equitable access.

3.12 The commercial viability of the current user charges model was questioned by some submitters, particularly in light of the toll road failures of Sydney's Lane Cove and Cross City Tunnels and Brisbane's Airport Link.[18] Industry Super Australia argued that the key impediment to levying charges that would deliver on investor return expectations has been governments' reluctance to make a strong case outlining the benefits of user charges. Intergenerational equity is posited as the primary benefit.[19]

3.13 Consult Australia also advocated for more informed public debate particularly with regard to road user charging. It argued that relying on fuel excise to fund roads was not sustainable, and that:

> Confusion in public debate about the difference between funding and financing limits governments' ability to make a persuasive case for a funding framework that supports an efficient equitable approach to user charging.[20]

3.14 Consult Australia recommended the development of 'pilot schemes to support community engagement and understanding'.[21] It was anticipated that these schemes would reflect the lessons learnt internationally and be promoted by industry.[22]

3.15 The Productivity Commission proposed a detailed review of direct road user charging and recommended the establishment of 'pilot studies on how vehicle telematics could be used' to estimate charges for cars and

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16 Mr Andre Kaspura, Engineers Australia, *Committee Hansard*, 25 June 2014, p. 5.

17 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 143.

18 Business SA, *Submission 8*, p. [5].

19 Industry Super Australia, *Submission 12*, p. 17.

20 Consult Australia, *Submission 2*, p. 3.

21 Consult Australia, *Submission 2*, p. 3.

22 Consult Australia, *Submission 2*, pp. 3–4.

other light vehicles.[23] The Commission told the Committee that the technology was available to provide electronic pricing, based on distance and location charging, but 'that does not mean the system is going to be introduced, unless there is some other incentive'.[24]

3.16 Furthermore the Commission acknowledged that many roads would never be capable of a user pays model and nor would it be socially advantageous for all roads to be funded in this way:

> We are acknowledging that as a key point … the whole of the pricing question for roads is going to be decided on a subset of roads in this country.[25]

3.17 When commenting on the issue of electronic pricing for light vehicles, Engineers Australia argued that the Commission's recommendation was 'fairly radical' and 'might be a step too far for change in one go'.[26] However, it agreed that models need to be developed that move away from a reliance on fuel excise, particularly for heavy vehicles.[27]

Inverted bid model

3.18 The superannuation industry has been investing in infrastructure for the last 20 years. The industry has argued that, with the right drivers in place, it has the capacity to markedly increase its involvement. Industry Super Australia told the Committee:

> Based on existing asset allocations and underlying growth, Industry SuperFunds will be seeking opportunities to invest a further $5 billion in new money into infrastructure over the next five years. A modest increase in infrastructure allocations by five percentage points would increase available new investment to $15 billion over the next five years. With no shortage of interest from Industry SuperFunds in new infrastructure investment opportunities the key challenge is how to make it happen.[28]

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23 Vehicle telematics uses global navigation satellite systems and wireless communications to monitor road use.

24 Mr Peter Harris, Productivity Commission, *Committee Hansard*, 27 August 2014, p. 8.

25 Mr Peter Harris, Productivity Commission, *Committee Hansard*, 27 August 2014, p. 8.

26 Mr Andre Kaspura, Engineers Australia, *Committee Hansard*, 25 June 2014, p. 5.

27 Mr Andre Kaspura, Engineers Australia, *Committee Hansard*, 25 June 2014, p. 5.

28 Industry Super Australia, *Submission 12*, p. 17.

3.19 Industry Super Australia presented a proposal whereby the bid process is inverted.[29] Under the proposed inverted bid model, the government tenders initially for the long term owner-operator followed by a separate bid for construction, operation and maintenance, and residual finance (see Table 3.1). According to Industry Super Australia:

> This effectively inverts the bid process relative to current PPP procurements that typically only see long term equity after an initial sell down by project sponsors.
>
> The most effective models could involve the long term owner-operator bidding on their margin over the other project capital, operating and financing costs.
>
> An inverted bid process would more effectively align the interest of all parties, significantly reduce fee leakage and deliver a better value for money outcome.[30]

3.20 As mentioned, it is proposed that construction tenders would be part of separate contractual arrangements. The Committee queried whether the model biased the tendering process to favour the bidder with the highest construction tender.[31] Similarly the Productivity Commission had reservations about the model's ability to generate a competitive selection process and provide 'the most robust owner-operators'.[32] On reflection the Commission recommended a 'hybrid model' and concluded:

> … that there may be merit in exploring a model that incorporates some elements of the inverted bid model into the existing procurement process.[33]

29 Industry Super Australia, *Submission 12*, p. 25.

30 Industry Super Australia, *Submission 12.1*, p. 9.

31 The Hon Alannah MacTiernan MP, *Committee Hansard*, 3 September 2014, p. 3.

32 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 251.

33 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 255.

Table 3.1 Selected features of the current, inverted bid and hybrid models

	Current process	*Inverted bid model*	*Hybrid model*
Project sponsor	Open to all parties, but current arrangements may favour banks	Open to equity investors only	Open to all parties
Bid selection criteria	Varies, but no consistent focus on economic return	Expected IRR converted into an ex ante revenue equivalent	Expected unlevered IRR converted into an ex ante revenue equivalent
Bundling of project functions	Financing, design, construction and operations fully bundled in a consortium	All functions unbundled and separately tendered for	Debt financing unbundled from the bidding
Certainty on commercial terms and risk allocation	High — fully financed and highly specific bids	Low/Moderate — equity funding competition on a concept case before involvement of designers and constructors	Moderate — non-fully financed bids, but the consortium structure is largely retained
Financing structure	Left to consortia, but current arrangements may favour bank finance	Mandated level of long-term equity contribution	Left to the winning bidder
Competition effects	Bundling mutes competitive signals for individual parties to the consortium	Potential limitations from fixing equity sponsorship and participation levels at an early point; pro-competitive otherwise	Increased competition from unbundling debt financing primarily

Source *Productivity Commission,* Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 258.*

3.21 The Committee received strong support for the design and implementation of flexible bid models to encourage the superannuation industry to invest its available liquidity and increase its involvement in infrastructure projects.[34] Business SA submitted:

> … superannuation funds may be better placed as a long term owner rather developer of infrastructure, but there is too significant a pool of funds not to keep trying to engage the superannuation sector resolve their issues regarding risk allocation.
>
> … State and Federal Governments must become smarter about how they engage the sector to provide models which suit the investment characteristics of a superannuation fund.[35]

3.22 The Civil Contractors Federation (WA Branch) (CCFWA) supported the inverted bid model and argued that a more flexible bid model is

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34 Australasian Railway Association, *Submission 14*, p. 6; Association of Mining and Exploration Companies, *Submission 10.2*, p. [3].

35 Business SA, *Submission 8*, p. [5].

necessary. Rather than being a negative, the CCF viewed delineations in the tendering process as potentially beneficial:

> The separation of the construction tender from financing means the most capable and best value contractors and lenders can be selected without compromise as each will not be tied to a particular consortium.[36]

3.23 The CCFWA conceded that the model 'will necessarily involve more risk to government'. Further to this, however, it was argued that '[a]s the Productivity Commission pointed out, there is nothing wrong with governments taking on a bit more risk and becoming less risk averse'.[37]

Debt financing and bonds

3.24 In the evidence presented to the Committee there was considerable discussion about the use of debt, particularly bonds, to finance public infrastructure. Consult Australia argued that the debate on the value of debt as a method of finance needed to be refocused, stating:

> I think what we have seen is an unnecessarily politicised environment in terms of the approach taken to debt funding infrastructure by governments at all levels. I think the example given in our submission of some of the flak copped in Queensland for dropping their credit rating based on what was a very large infrastructure spend at the time was disappointing. I think while you want responsible fiscal management, absolutely, you need to be careful, our members would argue, that that does not come at the expense of long-term substantive investment in the infrastructure pipeline that will ultimately contribute to productivity at a local, state and national level. That is our concern—that the infrastructure deficit is so large that it is having a detrimental impact on long-term productivity. That is the issue that needs to be addressed.[38]

3.25 Consult Australia urged a move away from 'the simplistic headline, that debt is bad and surplus is good':

36 Civil Contractors Federation (WA Branch), *Submission 25*, p. 7.

37 Mr Andy Graham, Civil Contractors Federation (WA Branch), *Committee Hansard*, 31 October 2014, p. 3.

38 Mr Jonathan Cartledge, Consult Australia, *Committee Hansard*, 7 August 2014, p. 12.

> The correct scrutiny of infrastructure projects in making a valid contribution to productivity is absolutely right—that is what we want to see—but perhaps that focus is a little out of whack in terms of the simplicity of that debt debate in general public discourse.[39]

3.26 Infrastructure Partnerships Australia cautiously endorsed this position, noting that 'debt is an extremely appropriate way to be able to fund the intergenerational capital investment task, and it has always been thus'. Additionally it was noted that room needs to be 'found on the public sector's balance sheet to repay these things as finance leases over time', and allowance made for the 'ongoing creation of headroom' for future infrastructure tasks.[40]

3.27 Infrastructure Partnerships Australia concluded that:

> On the issue of debt, the previous speakers said that the AAA credit rating should be allowed to lapse in the face of a large capital program. I would potentially agree with that as a semi-sovereign state government level, but there are a hell of a lot of things that you would do first in terms of changing both the cost and increasing the quality of public service delivery before you would make a decision about a higher level of gearing and the attendant financing costs that would go with it.[41]

3.28 Much of the discussion around debt focussed on the issue of bonds as a form of stable long-term finance. In evidence before the Committee, the Productivity Commission highlighted the potential of bonds as a possible mechanism for funding public infrastructure. However, the Commission emphasised that it was not discussing government bonds, which were simply another class of government debt, but infrastructure specific bonds raised on the private capital market and priced around the risks inherent in a project. This would represent a third option between expensive equity and relatively cheap but comparatively shorter-term debt.[42] The benefit of such bonds, according to Infrastructure Australia, was that they provided a more stable and secure form of debt funding compared to bank lending, which was subject to periodic renegotiation and movements in interest rates. Using bonds, bidders could 'put in very confidently their lowest bid,

39 Mr Jonathan Cartledge, Consult Australia, *Committee Hansard*, 7 August 2014, p. 12.

40 Mr Brendan Lyon, Infrastructure Partnerships Australia, *Committee Hansard*, 7 August 2014, pp. 17–18.

41 Mr Brendan Lyon, Infrastructure Partnerships Australia, *Committee Hansard*, 7 August 2014, p. 19.

42 Mr Peter Harris, Productivity Commission, *Committee Hansard*, 27 August 2014, p. 7.

because they know that there is no risk of increased debt-financing cost part the way through the contract'.[43]

3.29 An impediment to this form of finance was the absence of a market for private infrastructure bonds in Australia, a fact acknowledged by the Productivity Commission[44] and highlighted by others. Infrastructure Australia noted the absence of an infrastructure bond market in Australia following the Global Financial Crisis of 2008, despite its recovery elsewhere, and suggested a range of solutions, including:

> … asking bidders to put in bond-financed as well as bank-financed bids; and perhaps even going much further, in terms of the foundations of the market, to look at providing incentives for industry and private super funds to invest in bonds.[45]

3.30 The Property Council of Australia saw 'a long-dated bond market as being by far the easiest, most straightforward way of funding infrastructure projects', but urged government to take the leading role in the creation of that market initially.[46] The Urban Development Institute of Australia sought the development of 'long-dated investment products that deliver guaranteed total returns that are more attractive than standard government bond rates', but argued that this would 'require credit-enhancement as generic infrastructure-related returns are not high enough to appeal to investors'. The Institute suggested the creation of an Urban Infrastructure Fund and proposed two techniques to promote the fund:

- a tax rebate of 10% for investors purchasing bonds that finance eligible projects within the Urban Infrastructure Fund pool
- a capped government guarantee.[47]

3.31 The Institute proposed that the Australian Office of Financial Management (AOFM) 'would manage bond issues on behalf of the Urban Infrastructure Fund' and 'liaise with financial market intermediaries'. The funds secured by capital raisings would be transferred to the Urban Infrastructure Fund. The AOFM 'would also pool and securitise bundles of prospective infrastructure asset income streams to ensure they are of sufficient scale to attract institutional investors'.[48]

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43 Mr Rory Brennan, Infrastructure Australia, *Committee Hansard*, 4 June 2014, p. 6.

44 Mr Peter Harris, Productivity Commission, *Committee Hansard*, 27 August 2014, pp. 7–8.

45 Mr Rory Brennan, Infrastructure Australia, *Committee Hansard*, 4 June 2014, pp. 6–7.

46 Mr Charles Thomas, Property Council of Australia, *Committee Hansard*, 29 August 2014, p. 10; Property Council of Australia, *Submission 22*, p. 8.

47 Urban Development Institute of Australia, *Submission 9*, Attachment 1, p. [2].

48 Urban Development Institute of Australia, *Submission 9*, Attachment 1, p. [3].

3.32 Alternatively, Industry Super Australia argued the virtues of equity over debt.[49] While acknowledging the 'capacity for the Australian Government to take on additional debt to fund infrastructure projects', Industry Super Australia saw no appetite in government for debt 'given the current upward trajectory of government debt and commitment to return the budget to surplus and repay debt'; and suggested that if debt was to be incurred this should be by way of 'issuing generic long dated government bonds (this is preferred to the issuance of infrastructure bonds as the greater liquidity in generic bonds offers lower funding costs)'. Industry Super Australia noted that:

> In the debate around optimum debt levels, it must be acknowledged that even bonds that raise funds for a specific purpose—such as infrastructure bonds—are merely government debt by another name.[50]

Capital recycling

3.33 Capital, or asset, recycling is promoted as an 'alternative' mechanism to fund and finance infrastructure.[51] As the Productivity Commission explained:

> … capital recycling involves government privatising mature assets and explicitly hypothecating the proceeds to the financing of new infrastructure projects (or into a dedicated infrastructure fund for a series of projects), which can in turn be privatised themselves once they become mature.[52]

3.34 The Commission has explained that capital recycling involves two decisions (1) to privatise state-owned assets and (2) to invest in new infrastructure. Consequentially it is argued that '[t]he main risk from the capital recycling model is the potential for it to distort either of these decisions'.[53] Other risks associated with capital recycling included:

49 Mr Matthew Linden, Industry Super Australia, *Committee Hansard*, 3 September 2014, p. 4.

50 Industry Super Australia, *Submission 12*, p. 17.

51 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 259.

52 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 258.

53 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 262.

- that it may mute the incentives for governments to adequately consider the extent of 'user charges'; and
- it may cement the public view that the only time an asset should be privatised is when there is a new project in which to invest.[54]

3.35 While industry was largely supportive of asset recycling to facilitate spending on new infrastructure, there was some contradictory evidence regarding the general public's endorsement of the policy.[55] Both Consult Australia and Industry Super Australia argued that with the right conditions, the privatisation of public infrastructure could receive 'broad public support'.[56] Industry Super Australia submitted:

> Superannuation funds as buyers have the potential to cut through community concerns about private sector ownership and potentially change the game. Research commissioned by ISA and conducted by Newspoll shows 77.8 per cent would be more supportive of private investment if it involved super funds.[57]

3.36 The Commonwealth Government is committed to facilitating asset recycling. In May 2014, the government introduced two bills to the House, the Asset Recycling Bill 2014 and the Asset Recycling Fund (Consequential Amendments) Bill 2014. The bills enable grants to the states and territories through the COAG Reform Fund; extend the Future Fund Board's duties to manage the Asset Recycling Fund (ARF); and allow for amounts to be transferred between the ARF and Future Fund.[58]

3.37 On 30 October, the Prime Minster, the Hon Tony Abbott MP, told the House that every state and territory has signed to the National Partnership on Asset Recycling. Furthermore, the Prime Minister stated:

> Asset recycling should reassure the taxpayers who paid for the assets in the first place that their investment is being preserved and their legacy built upon.[59]

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54 Productivity Commission, *Public Infrastructure: Inquiry Report*, Volume 1, No. 71, 27 May 2014, p. 262.

55 Australian Constructors Association, *Submission 16*, p. 5; Chamber of Minerals and Energy of Western Australia, *Submission 3*, p. 1.

56 Consult Australia, *Submission 2*, p. 3; Industry Super Australia, *Submission 12*, p. 18.

57 Industry Super Australia, *Submission 12*, p. 18.

58 Parliament of Australia, Bills and Legislation, (viewed 20 October 2014) <http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation>

59 The Prime Minister, the Hon Tony Abbott MP, 'Ministerial Statements—Infrastructure', *House of Representatives Hansard*, 30 October 2014, p. 1.

3.38 Consult Australia commended the Australian Government's moves to provide tax incentives to support assets sales by state and territory governments.[60] According to Consult Australia:

> The creation of Restart NSW from funds hypothecated from the lease of Port Botany and Port Kembla is an important model that can be replicated across jurisdictions … The subsequent model for capital recycling through the delivery of the Westconnex projects continues this principle which should be encouraged as governments access some of the more than $100 billion sitting on their balance sheets.[61]

3.39 The Property Council of Australia were highly supportive of the government's Asset Recycling Fund and told the Committee:

> We strongly endorse this concept as a way of alleviating the balance sheet impacts of infrastructure delivery. We believe the concept of offering federal incentive payments to promote asset recycling is sound. It provides the divestment decision to follow stringent cost-benefit analysis and that assets are not discounted at all as federal initiatives. We believe the fund provides a mechanism to alleviate the political tensions that plague the asset sales at all levels of government.[62]

Committee conclusions

3.40 The Committee received evidence supporting PPP arrangements and promoting innovative financing mechanisms, such as increasing access to the liquidity in superannuation to fund greenfield projects and special purpose infrastructure bonds.[63] However, this support was caveated by the need to be mindful of recent failures, particularly associated with toll roads, and recognition that appropriate financing mechanisms need to be assessed on a case-by-case basis.[64]

3.41 The Committee acknowledges that as finite public finances are further tested, governments will have to find, and promote, innovative and

60 Consult Australia, *Submission 2*, p. 3.

61 Consult Australia, *Submission 2*, p. 3.

62 Ms Caryn Kakas, Property Council of Australia, *Committee Hansard*, 29 August 2014, p. 8.

63 Association of Mining and Exploration Companies, *Submission 10*, p. 3.

64 Urban Development Institute of Australia, *Submission 9*, p. [2]; Department of Infrastructure and Regional Development, *Submission 11.1*, p. [1]; Business SA, *Submission 8*, p. [5].

flexible models to fund and finance infrastructure. The continued development of mutually beneficial PPPs and enhancing the role of private equity partners will be a necessary development as industry and governments work towards ensuring Australia's infrastructure needs are met. The Committee does not believe there is a 'silver bullet' for infrastructure but does believe there is room to develop policy levers to maximise all available funds. The example of the Commonwealth Government's asset recycling program represents positive policy leadership in this regard.

3.42 In Chapter Four the Committee recommends that alternative procurement models be developed to assist the development of private investment in infrastructure. In addition to this, the Committee believes that the Australian Government has a role in leading public discussion on the relationship between infrastructure, what it costs and how it is funded. It is the Committee's view that a better understanding of this relationship would facilitate the development and public acceptance of alternative funding and financing models.

Recommendation 6

3.43 **The Committee recommends that the Australian Government, through Infrastructure Australia, develop innovative financing and funding models for the development of public infrastructure with a view to making the financing and funding of public infrastructure more flexible and responsive to the actual costs and risks in the delivery and operation of that infrastructure. Options to consider and further develop include:**

- **User charging,**
- **Inverted bidding,**
- **Promotion of infrastructure bonds, and**
- **Capital recycling.**

3.44 The issue of equitable access to services is a key driver for the continued involvement of governments, at all levels, to fund and finance certain infrastructure. As private investment increases in infrastructure projects which monopolise various services, it is vital that governments retain robust oversight via price monitoring and regulation, and access regimes. Thus, the Committee acknowledges that there will always be a vital role for government funding particularly in relation to infrastructure that serves the 'public good' and to which direct user charges are not applicable.