Chapter 7
Conclusion

7.1 Infrastructure is fundamental to Australia's prosperity and quality of life.The federal government has a central role in providing financing infrastructure expenditure across all levels of government.

7.2 The committee agrees that the right level of investment in public infrastructure cannot be identified without also exploring: the government's appetite to fund spending; the private sector's appetite to invest; and the public's willingness to pay, either through taxation or direct charges. Opportunity cost is at the heart of infrastructure financing and expenditure. Infrastructure Australia put it simply: we get the infrastructure we are prepared to pay for.

Getting into debt again: public and private financing

7.3 Since the global financial crisis, the role of public infrastructure spending to provide economic stimulus has added another dimension to the question; what is the right level of infrastructure spending? The committee accepts the consensus among local and global economists that spending on productive infrastructure is an import lever in fiscal policy.

7.4 The current cost of debt provides government an historic opportunity to invest, particularly if the cost of debt can be locked in through long-term maturity. The committee accepts the evidence that significant increases in debt are likely to affect Australia's AAA credit rating. However, the committee also heard that this would not necessarily materially affect of the price of debt for federal or state governments. More pertinently, the benefit of investing in productivity enhancing infrastructure is that it improves economic conditions, and this should outweigh increases in interest repayments. Investing in the right infrastructure will provide a net benefit to the economy.

7.5 The committee heard that there is a demand in the private sector for government infrastructure bonds to provide a secure long-term investment. Coupled with the call for fiscal stimulus, the committee believes now is the right time for the federal government to increase debt to fund investment in productivity enhancing infrastructure.

7.6 The committee also heard that the federal government could assist lower tiers of government in gaining access to finance by either underwriting borrowing or undertaking borrowing on their behalf. While the responsibility for infrastructure delivery largely sits with state, territory and local government, the federal government has the capacity to borrow at lower rates given its access to a wider tax base.

7.7 The committee heard that the market for municipal bonds in Australia is immature and is not likely to grow significantly without federal government intervention. Federal government underwriting or issuing bonds on behalf of other levels of government would help overcome concerns about the size and liquidity of infrastructure bonds; and would further assist by providing a mechanism to pool projects together, including across jurisdictions.

7.8 Pooling projects under the auspice of the federal government would also help direct finance towards the maintenance of infrastructure. The committee notes that maintenance gaps are more easily identified than gaps in new service provision: because maintenance is about retaining an existing level of service. In most cases it can be assumed that there is a desire to retain this level of service. However, because maintenance projects are usually small, there is a need to pool them together to attract finance.

Recommendation 1

7.9 The committee recommends that the federal government increase its level of borrowing to fund productivity enhancing infrastructure.

Recommendation 2

7.10 The committee recommends that the federal government issue infrastructure bonds to fund federal, state, territory and local government investment in infrastructure.

7.11 The committee agrees that government does not need to be the sole source of finance for infrastructure, and that the private sector plays a significant role in the provision of public infrastructure in Australia. A one-size-fits-all approach is not a sensible approach to the consideration of financing for infrastructure projects.

7.12 The committee agrees with the evidence that the suitability of public or private financing is heavily dependent on the nature of the project. Generally speaking, where the benefits that arise from infrastructure spending are not directly attributable to any private gain, then government debt is likely to be the least-cost option. Conversely, where private gain can be attributed to infrastructure and can be captured in the market, then private equity is more likely to be competitively priced. Put crudely, the private sector is likely to be interested in direct investment when infrastructure—often big projects—has an income stream associated with it.

7.13 The committee heard that commonly used models to attract private equity—particularly so-called public-private partnerships—are not necessarily the most efficient means of attracting private equity. The committee agrees that attracting private equity partners prior to and separately from the contract for project delivery—the so-called inverted bid model—is likely to expand the field of finance available, and decrease the cost of capital accordingly.

Recommendation 3

7.14 The committee recommends that the federal government utilise the inverted bid model when seeking to attract private equity finance.

Horses for courses: value capture, user pays and private equity

7.15 The committee agrees that—again, generally speaking—where there is a private gain that stems from the provision of infrastructure then the beneficiary should contribute to the funding of infrastructure spending.

7.16 The committee heard consistent evidence that Australia is underutilising value capture as a source of funding. The committee agrees that where private gain is reflected in land prices, then value capture should be considered as a source of funding for infrastructure.

7.17 The committee agrees that the simplest and most reliable and equitable means of capturing the benefit (or detriment) to land holders is a broad-based land tax. The committee also agrees that a broad-based land tax would help provide security for the issuance of infrastructure bonds.

7.18 The committee agrees that where the private gain is in the provision of a service, then user charges should be considered as a funding source for infrastructure. The committee heard evidence that there is latent capacity for user pays funding to be utilised, particularly for transport infrastructure. However, the committee did not consider in detail the different mechanisms in place or available to increase user charges.

7.19 However, the committee believes it is important to temper the consideration of value capture or user charges with the consideration of equity of access and ability to pay. Public infrastructure often provides a benefit to society that goes beyond the individual and is not able to be monetised. The committee does not advocate the transfer of the cost of funding infrastructure to users or beneficiaries *carte blanche*. Infrastructure funding should be a balance between value capture and user pays, and general revenue.

7.20 The committee heard that the federal government's Asset Recycling Program has been used to fund infrastructure spending by state governments. However, the committee agrees with the evidence that asset recycling—irrespective of its merits—is not a funding source inherent to the provision of infrastructure. The decision to spend the proceeds of assets sales on infrastructure is no different to the decision to spend any other source of revenue on infrastructure. Outside of overarching budgetary considerations, the sale of one asset has no bearing on the funding of another asset.

Recommendation 4

7.21 The committee recommends that the access by state and territory governments to funding from infrastructure bonds is contingent on the introduction of broad-based land tax.

Good debt and bad debt: properly accounting for infrastructure

7.22 The committee heard that the public discourse about infrastructure spending is influenced by the way government investment is accounted for. Unlike state, territory and local governments—and most large businesses—the federal government does not use accrual accounting; debt for recurrent purposes and debt for infrastructure are routinely conflated when government borrowing is considered. This erodes the capacity of government to explain when and how funding and maintaining infrastructure by making a capital investment upfront and paying for this over time is prudent and worthwhile.

7.23 The committee believes that the establishment of a separate set of books for infrastructure would make government financing and spending on infrastructure more transparent. Establishing an independent infrastructure fund would allow the distinction to be made between government liabilities associated with infrastructure and recurrent borrowing. This would better enable the public to understand where their money is going.

7.24 An independent infrastructure fund would also improve confidence among investors and provide the framework to attract equity investment from the private sector. An independent infrastructure fund would manage the balance of government borrowing and private equity, and would manage any revenue from taxation and user pays revenue associated with infrastructure spending.

7.25 An independent infrastructure fund would complement Infrastructure Australia, with Infrastructure Australia managing project selection and the infrastructure fund managing project finance.

Recommendation 5

7.26 The committee recommends the establishment of an independent infrastructure fund to manage federal government funding and spending for infrastructure.

Recommendation 6

7.27 The infrastructure fund would be overseen by an independent board. The fund would manage Commonwealth grants for infrastructure and the distribution of funds raised by infrastructure bonds. The fund would also be empowered to attract and manage private equity investment.

Improving investor confidence: making the politics transparent

7.28 There are clearly improvements that can be made in infrastructure decision making. Addressing the political dimensions of project selection is central to this. This point has been consistently made by successive reports and commentary on infrastructure spending in Australia, so much so that it has become a cliché.

7.29 The committee believes that infrastructure decisions are and should be political decisions. However, the political nature of project selection must be offset by objective project evaluation, increased transparency and a greater emphasis on long-term planning to guide project selection. This will improve the quality of infrastructure in Australia and, in turn, improve investor confidence.

7.30 Infrastructure funding provided by the federal government should be contingent on objective project assessments being undertaken. These project assessments—including cost-benefit analysis and the underlying assumptions—should then be made public before funding is decided upon.

7.31 The results of a project assessment should not necessitate the acceptance or rejection of a project. Project assessments are unavoidably constrained in how widely and accurately they can measure the costs and benefits of projects. There may be social, community or productivity benefits which are not able to be quantified but that should not be discounted.

7.32 However, the final decision on funding particular projects should still be a political decision that provides the opportunity for considerations beyond the scope of the assessment to be taken into account. The publication of project assessments prior to the decision of government would create an obligation to explain any departure from the objective assessment, including where the government believes that a project assessment was unable to sufficiently quantify costs or benefits.

Recommendation 7

7.33 The committee recommends that a project assessment be required for all projects seeking federal funding and that this project assessment be published prior to a funding decision being made.

Recommendation 8

7.34 The committee recommends that the level of detail required for project assessment should be graded according to the scale of the project, with larger projects being required to undertake more detailed cost-benefit analysis. Similarly, the time period between publication of project assessment and a funding decision should be graded according to the scale of the project, with evaluations for larger project being required to be made public for a longer period before a funding decision is made.

7.35 Infrastructure Australia is best placed to manage the criteria for, and evaluation and publication of project assessments. However, Infrastructure Australia's current remit would need to be expanded beyond that of nationally significant infrastructure if it were to be responsible for all project assessment that receives federal funding. In doing so, Infrastructure Australia would need to assume some of the responsibility currently vested with government departments. This change would require detailed consideration of managing and resourcing issues before being pursued further.

Recommendation 9

7.36 The committee recommends that the government consider widening Infrastructure Australia's powers to include the responsibility for all project assessment for projects seeking federal funding.

Recommendation 10

7.37 The committee recommends that the government consider diverting resources currently provided to the Department of Infrastructure and Regional Development for project assessment to Infrastructure Australia.

7.38 Infrastructure Australia already has responsibility for developing a national plan. The criteria for assessment should include the adherence of any particular project with Infrastructure Australia's national plan as well as relevant state, territory and local plans. Again, any deviation from the objectives in relevant plans should be articulated in the project evaluation and able to be scrutinised before a political decision is made.

Recommendation 11

7.39 The committee recommends that the criteria for project assessments include the proposed project's adherence to relevant federal, state, territory and/or local government infrastructure plans.

Senator Peter Whish-Wilson

Chair