

Infrastructure Financing and Funding Reform Report

June 2012

On Wednesday 13 June 2012, Minister for Infrastructure and Transport, Anthony Albanese, released the “Infrastructure Finance and Funding Reform” report. The report was prepared by the Infrastructure Finance Working Group, an expert group of industry and senior public sector representatives, established to provide advice to Infrastructure Australia on infrastructure finance policy issues.

The report finds that the private sector is a willing infrastructure partner, but a lack of projects is impeding greater private sector involvement in infrastructure investment. The report calls for a wide ranging and sustained period of reform to the financing of essential infrastructure, incorporating all levels of government.

The Minister’s media release is available [here](#). The report is available in full [here](#).

Contents

Findings and Recommendations.....	1
The Infrastructure Finance Working Group.....	3
Consultation Process	4
Infrastructure Australia	4

Findings and Recommendations

The report makes thirteen recommendations, divided into three key finding areas: funding reform; better investment planning; and developing a more efficient market.

Funding reform:

A major constraint on the delivery of social and economic infrastructure is the funding capacity of Australian governments. This is distinct from the capacity of the private sector to provide financing capital for infrastructure projects. Solutions to the backlog of infrastructure investment, or ‘infrastructure deficit’, will require substantial funding reform but will lead to greater private sector investment in infrastructure.

Recommendation 1: Governments should implement targeted measures such as user charges to enhance price signals to better balance supply and demand, and to increase the funding available for infrastructure investment.

Recommendation 2: State and Territory governments should identify and monetise suitable public assets, allowing the freed up capital and avoided debt repayments to be recycled/invested into infrastructure projects.

Recommendation 3: The Australian Government should give a higher priority to infrastructure funding in the immediate-term to achieve positive reforms that will get nationally significant projects to the market in the short-to-medium term.

Recommendation 4: For appropriate projects, the Australian Government should consider the greater use of alternative funding models, including co-funding availability payments alongside State and Territory governments.

Recommendation 5: Governments should utilise appropriate models to drive revenue from the broader benefits delivered by major infrastructure projects, such as value capture for transport infrastructure.

Recommendation 6: The Australian Government should strengthen its linking of infrastructure funding to State and Territory governments implementing agreed reforms including changes that increase their capacity for investment.

Better investment planning:

Critical reforms are needed to create a better articulated and transparent national infrastructure market. This will involve long-term planning to guide infrastructure priorities, options for structuring projects to attract private capital and expanding the investment pipeline.

A clearer, funded and national pipeline will naturally drive a much more efficient infrastructure market and allow for a sharing of experiences and procurement outcomes to be applied more widely across Australia's governments, driving greater efficiency.

Recommendation 7: Australian governments should prepare 20-year infrastructure strategies, with a common framework and timeframe across jurisdictions, allowing for the development of a clear and strategic national hierarchy of infrastructure plans.

Recommendation 8: Long-term infrastructure strategies should be used to develop a more transparent, robust and funded pipeline of infrastructure projects and must include an early indication of the likely financing and funding sources, enabling the public and private sectors to efficiently deploy capital and resources.

Recommendation 9: Governments should reduce procurement costs and coordinate procurements across jurisdictions.

Developing a more efficient market:

Achieving the reforms to funding capacity will unlock a substantial pipeline of projects, increasing the call on equity and debt capital to finance the projects. A deeper, more competitive capital market will assist in getting the pipeline off the ground.



Recommendation 10: Governments should take a more flexible approach to the allocation of risk, including demand risk, for high net public benefit projects that have the capacity to generate revenue streams from users.

Recommendation 11: In the short term, governments should adopt a flexible approach to refinancing risks, as the tenor and cost of debt pose an ongoing challenge to greater involvement by the private sector in the financing of infrastructure.

Recommendation 12: To encourage financial institutions such as superannuation funds to further invest in long-term assets such as infrastructure, the Australian Government should examine the structure, regulation and taxation of retirement income products and the way in which they may impact on the demand for long-term investments.

Recommendation 13: The Australian Government should remove unnecessary regulatory barriers that currently impede retail corporate bond issuance in Australia as a way to diversify the sources of debt.

The Infrastructure Finance Working Group

The Infrastructure Finance Working Group (IFWG) was established by Minister Albanese in June 2011, and was tasked with identifying current barriers to attracting infrastructure finance and developing options to encourage greater private sector investment.

The IFWG's terms of reference are to:

- advise Infrastructure Australia on the implementation of certain measures of the 2011-12 Commonwealth Budget relating to infrastructure investment;
- identify and advise on impediments and options for reform to infrastructure finance policy; and
- advise on the role of private finance, user charges and alternative finance models in the provision of public infrastructure.

The nine members of the IFWG are:

- Mr Jim Murphy (Chair), Executive Director, Australian Treasury
- Mr Ross Rolfe (Deputy Chair), Managing Director, Resources Infrastructure, Lend Lease
- Dr Paul Schreier, Deputy Secretary, Department of Prime Minister and Cabinet
- Mr Mike Mrdak, Secretary, Department of Infrastructure and Transport
- Ms Pauline Vamos, CEO, Association of Super Funds of Australia
- Mr Stephen Williams, Country Executive, Royal Bank of Scotland
- Mr Julian Vella, National Leader, Infrastructure Projects Group, KPMG
- Mr David Byrne, Head of Utilities & Infrastructure Australia, ANZ
- Mr Brendan Lyon, CEO, Infrastructure Partnerships Australia

Consultation Process

The IFWG's report was produced following public consultation process, which began with the release of the Infrastructure Finance Reform issue paper in July 2011. The issues paper identified a range of potential obstacles to more efficient infrastructure investment, and invited a discussion of potential reforms.

Following the release of the issues paper, a three month public consultation was held, ending in September 2011. Twenty eight submissions were received from a wide range of stakeholders, including State and Territory treasuries, public sector infrastructure delivery agencies, superannuation funds, investment companies, bankers, contractors and consultants.

The issues paper is available in full [here](#).

Infrastructure Australia

The IFWG's report was written as advice to Infrastructure Australia, the peak advisory body on matters relating to infrastructure in Australia. Established under the [Infrastructure Australia Act 2008](#), which came into effect on 9 April 2008, Infrastructure Australia is an eleven member statutory body whose members are appointed by the Federal Minister for Infrastructure and Transport.

Infrastructure Australia reports regularly to the Council of Australian Governments (COAG) through the Federal Minister for Infrastructure and Transport.

Infrastructure Australia functions as set out in the *Infrastructure Australia Act 2008*

1. Infrastructure Australia has the primary function of providing advice to the Minister, Commonwealth, State, Territory and local governments, investors in infrastructure and owners of infrastructure on matters relating to infrastructure, including in relation to the following:
 - a. Australia's current and future needs and priorities relating to nationally significant infrastructure;
 - b. policy, pricing and regulatory issues that may impact on the utilisation of infrastructure;
 - c. impediments to the efficient utilisation of national infrastructure networks;
 - d. options and reforms, including regulatory reforms, to make the utilisation of national infrastructure networks more efficient;
 - e. the needs of users of infrastructure;
 - f. mechanisms for financing investment in infrastructure.

2. Infrastructure Australia has the following additional functions:
 - a. to conduct audits to determine the adequacy, capacity and condition of nationally significant infrastructure, taking into account forecast growth;
 - b. to develop lists (to be known as Infrastructure Priority Lists) that prioritise Australia's infrastructure needs;
 - c. to review and provide advice on proposals to facilitate the harmonisation of policies, and laws, relating to development of, and investment in, infrastructure;



- d. to evaluate proposals for investment in, or enhancements to, nationally significant infrastructure;
- e. to identify any impediments to investment in nationally significant infrastructure and identify strategies to remove any impediments identified;
- f. to promote investment in infrastructure;
- g. to provide advice on infrastructure policy issues arising from climate change;
- h. to review Commonwealth infrastructure funding programs to ensure they align with any Infrastructure Priority Lists;
- i. to undertake or commission research relating to Infrastructure Australia's other functions;
- j. any functions that the Minister, by writing, directs Infrastructure Australia to perform;
- k. any other functions conferred on Infrastructure Australia by this Act or any other law.

More information on Infrastructure Australia is available at <http://www.infrastructureaustralia.gov.au/>.