

FUNDING ANALYSIS

Key lessons learnt	Funding strategies are context-specific and only through actual implementation can there be an appropriate appreciation of impacts
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Introduction

Funding infrastructure investment usually happens through two key channels – namely general taxation revenues and user charging. The ability to pay for infrastructure through these means varies according to specific projects or infrastructure sectors. For privately operated assets, such as airports and utilities, users charging under regulatory structures have broadly paid for new assets and ongoing operation and maintenance. Meanwhile, the public sector generally subsidises investment and operations in other sectors, such as transport and health, where user charging is not sufficient to fund investment.

The rising costs of infrastructure and need to invest, coupled with an increasingly tight government fiscal position, have all contributed to the debate around alternative funding sources for assets that primarily rely on the public purse for funds, such as through value capture and sharing mechanisms. The experience of other countries in these funding instruments is informing the development of relevant policies and approaches for Australia.

Key considerations

Appropriate analysis of whole life costs

The first point of consideration for funding analysis is a clear understanding of costs across the whole lifecycle of the infrastructure investment. It is often the case that the analysis of funding options outside of the usual grants from the general taxpayer put focus on the upfront capital expenditure without due consideration for ongoing operational and maintenance expenses. This is important since public subsidies for the ongoing operations of certain infrastructure assets can be significant costs to projects, such as the case for transport infrastructure.

Understanding value drivers

The key to funding therefore is a detailed assessment of the drivers of value for projects and allocating as much of the burden to the beneficiaries as is feasible, without impacting on demand for the infrastructure assets or the desired outcomes from these projects. The types of value drivers are summarised below for a typical public transport project:

- ▶ Public transport projects are fundamentally about enhancing connectivity through connecting poorly linked places, such as through new linkages or reducing/improving journeys, and/or through enhancing capacity in congested corridors. The direct impacts come in the form of improved/faster journeys for users, safety and overall accessibility. These could also mean higher revenues for operators. Most of these benefits accrue to users of the services meaning that user charging is therefore the most effective and efficient method of funding a large part of the investment throughout its lifecycle;
- ▶ Public transport projects can also be associated with public sector assets, such as rail stations, bus interchanges and public land ownership. The ability to utilise these assets through more efficient commercial arrangements than is currently the case can provide significant sources of funding for projects. For example, joint development opportunities or leasing arrangements may provide better commercial outcomes than upfront land or asset sales. These types of structures are starting to get better hold in Australian infrastructure projects and should continue to develop to maximise value for the public purse;
- ▶ A number of public transport projects can also impact on land uses and development activity around key nodes and/or across the corridor through increasing possible densities and land values by enabling the movement of larger volumes of passengers on these corridors. The beneficiaries are mainly land and property owners around these nodes and across the corridor whom often realise windfall gains without

having to contribute to the cost of the infrastructure. The ability to utilise well established mechanisms to share and capture some of this value to help pay for the infrastructure is starting to feature in Australian projects, noting that this has been a long-standing feature of projects in a number of other countries; and

- ▶ For a limited number of projects, where the impact is large enough at city or regional level, or across a large part of a transport network, there is the ability to consider other broader mechanisms to capture value through broad-based taxation and levies. Again, this has been utilised globally very effectively, particularly in the USA and UK, but not currently considered for Australian projects. However, as Australia continues to explore the City Deals model, this might provide a structure for plugging funding gaps through revenue sharing and performance-based arrangements between the three levels of government without having to introduce new taxes or levies.

Importantly, as projects become more expensive and infrastructure needs grow, finding alternative sources of funding outside of general taxpayer funds will continue to increase. NSW has been blessed with the gains from asset recycling, which has also helped fuel investment in other countries in the past. But as the experience has shown in these countries, waves of public asset privatisation will at some point run its course and the need for alternative funding sources will only increase if the investment momentum is to be maintained. This can only happen if projects planned today are paying due attention to alternative funding mechanisms.

The reality is, that much will depend on the legislative structures, political will, specific project context, risk appetite and the viability of certain mechanisms. It is only through trial and implementation that a framework will become the standard for funding future investments. The key point is to move forward from theoretical models and policy papers towards actual implementation of mechanisms as the real impacts will not really be known until then.

▶ **About the author:**

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