How can Victoria fund its Infrastructure?

Submission to the Inner Metropolitan Planning Alliance

2014

Jason Dowling in *The Age* during the election campaign said:

> *Reality check for the people of Victoria: there is no train to the airport "with services every 10 minutes", no tunnel beneath the city connecting Fishermans Bend and St Kilda Road to the CBD. You are being fed a myth. Again. These rail projects are never happening, or at least not for decades … History tells us is that big projects need either billions of dollars in federal cash or a state government willing to impose a new tax or levy to pay for them. The rail projects currently bombarding our television screens have neither.* (see attached 'The sad truth about Melbourne's transport future')

The last two State governments have fallen because of broken promises on public transport. How can the new State government avoid a similar fate?

How can we fund a 21st century public transport system including Melbourne Metro Rail tunnel project?

The commercial settlement of the East West link has allowed a $3 billion credit facility to be 'repurposed' to contribute to the Melbourne Metro project. But as this will cost an estimated $9-$11 billion, there is still a significant shortfall.

It is submitted that the State government should actively explore ways to fund a

21st century public transport system. It must make this a 'real project', not an'election project'. These ways could include:

1. A Special Levy for Melbourne Metro
2. Sale of Railway Air rights
3. Congestion Charges and User Charges
4. Infrastructure Bonds
5. Public/Private Partnerships
6. Privatisation of Assets
7. Encourage Superannuation Funds to Investment in Infrastructure
8. Enabling Self-Managed Super Funds to invest in Infrastructure
9. Federal Funding

Adopting a mix of these may require innovative and courageous decision-making by the State Government. But the government can be sure that interested community groups would engage in a vigorous educational and political campaign in its support.

1. A Special Levy for Melbourne Metro

Melbourne's City Loop was funded through a combination of government debt and a special city levy. The government should develop a similar proposal for the Melbourne Metro Rail tunnel project. This may require the co-operation of the local Councils.

2. Sale of Railway Air rights

The land above railways could be developed, with proceeds funding public transport infrastructure. In particular part of the Melbourne Metro rail tunnel could be funded by commercial developments around and above the five new stations. Furthermore Melbourne has 177 road level rail crossings. The State Government has promised to remove 50 crossings with funding from the lease of the Port of Melbourne. An additional funding possibility is for private investors to finance development of some crossings with sale of the development rights.

3. Congestion Charges and User Charges

The government could explore user-pays charges upon existing roads or privatise them outright. Again the funds could be dedicated to public transport, which would significantly increase public acceptance of the new charges.

4. Infrastructure Bonds

A traditional way of financing infrastructure is by borrowings and government bonds. However the federal and state governments have been afraid of losing their AAA credit rating.

Infrastructure Australia chairman Sir Rod Eddington has proposed the introduction of "infrastructure bonds" to fund development of our infrastructure. This will give global investors something to invest in other than Aussie government bonds, Telstra shares and export LNG projects. We can put this foreign money to good use replenishing the national infrastructure.

We can borrow money at super-low rates to build new railways, schools etc and also cushion the economy from the decline in mining investment with the peaking of the mining boom. Rod Eddington has said the lack of a comprehensive bond market in Australia was the "missing link" in the country's financial services sector that needs to be filled.

The key to infrastructure bonds is that they confer tax advantages. They have been used in the past but were abused by Macquarie Bank. This led to the termination of the old scheme. Any new scheme would have to be carefully constructed to prevent abuse.

5. Public/Private Partnerships

The alternative is to avoid debt and budget deficits by by privatising new infrastructure. Victoria has led the way in Public-Private partnerships (PPPs). The theory is that the private sector can better manage the building new infrastructure. However history has shown that PPPs can be an expensive way of financing social infrastructure such as public schools and public hospitals. Governments can borrow money at significantly cheaper rates than private developers.

6. Privatisation of Assets

In 2012 Infrastructure Australia advised that state and federal governments could sell more than $200 billion of ‘lazy’ assets to fill the nation’s infrastructure gap, reduce debt and lift productivity. The report identified 82 profit making government assets that could easily be sold. These include power generators, airports, water utilities and ports.

7. Encourage Superannuation Funds to Investment in Infrastructure

Much of the angst over privatisation could be relieved if government assets were to be sold to Australian superannuation funds. Super funds have typically invested in privatised assets because the asset has already been constructed and in most cases, has been operating for a number of year such as the Melbourne Airport. They are particularly attracted to the steady yields offered by public assets.

Sale to superannuation funds would help overcome political opposition to the privatizations and enable governments to invest in new infrastructure, such as public transport, schools and hospitals. The ACTU has backed the campaign on the grounds that "social privatisations" can transfer government assets to the community using super funds that represent "mum and dad" owners.

Currently superannuation funds invest around $48 billion in infrastructure assets. This is a non-trivial sum but compared to the size of the superannuation pool at $1.4 trillion, it is only a drop in the bucket. The state and federal governments should investigate methods to encourage superannuation funds to invest in Melbourne's needed infrastructure.

A recent study by Ernst & Young said the superannuation is not a cash cow to fund particular economic ills in Australia ('Financing Australia's infrastructure needs: Superannuation investment in infrastructure'). The law required funds to invest on behalf of members to maximise returns in a safe way. This means investing in a range of assets that meet the required risk/return profile. Studies have consistently identified the following barriers:

- The perception of infrastructure value
- Problems with liquidity
- Poor alignment with investment strategies
- Greenfield projects being less attractive
- Complex, expensive bidding processes
- A lack of a clear project pipeline
- A lack of specialist expertise

The Ernst & Young study then identified a number of ways in which government can encourage superannuation funds to increase their level of investment in infrastructure.

8. Self-Managed Super Funds and Infrastructure

In 2014 the Australian Infrastructure Summit proposed a new model for funding infrastructure: directly harnessing self-managed super funds. The plan is that residents of our state capital cities plus smaller cities be offered securities (probably bonds) in projects like road, rail, education or health infrastructure.

Income for the infrastructure securities should be generated by a combination of revenue via tolls, fares or other charges plus a taxation revenue subsidy. A small portion of the revenue would go to an insurance fund in case individual projects do not meet expectations and there would also need to be some government income backing in the early stages of a project.

The Murray report suggested changing the rules to make it easier for self-managed funds to participate directly in infrastructure projects. The SMSF Professionals' Association of Australia has set out a detailed set of recommendations to help the government.

Self-managed funds are predicted to have asset holdings of more than $2 trillion by 2033. It is well-known that SMSFs hold too much cash and Australian equities. A significant portion of this $2 trillion would available for infrastructure if the appropriate rules were in place.

See attached articles by Robert Gottliebsen
'A new way to fund rail, roads and hospitals' 17 MAR 2014
'A neat fix to the politics of infrastructure funding' 25 FEB 2015
'SMSFs should get a piece of the infrastructure pie' 5 JAN 2015

9. Federal Funding

Finally, of course, there is the possibility of federal funding for public transport. The federal Liberal government may have ideological reasons for refusing to do this. But in any case the financial pressures on the Federal government's budget, whether Liberal or Labor, means that it is important for the Victorian government to explore other means to fund a modern public transport system.

What is to be done?

It may be appropriate to task Treasury and Infrastructure Victoria, under Special Minister of State Gavin Jennings, with exploration of these options. We understand that one of the responsibilities of Infrastructure Victoria will be to provide advice to government on appropriate funding and financing models for infrastructure investment.

The State Government has said it will create an independent body to advise on planning matters and development proposals but cannot say when it will be established or what it will cost.

Called Infrastructure Victoria, the new organisation will give recommendations to the government on key planning projects, which will be publicly available.

Final decisions on planning matters would still remain the responsibility of the government.

Special Minister of State Gavin Jennings will be in charge of Infrastructure Victoria.
Infrastructure Victoria will:
■ Identify Victoria's current and future needs and priorities relating to state and nationally significant infrastructure
■ Develop lists that prioritise Victoria's infrastructure needs
■ Evaluate proposals or enhancements to significant infrastructure
■ Provide advice to government on impediments to infrastructure delivery
■ Develop and publish research on the economic and social benefits of particular projects
■ Provide advice to government on appropriate funding and financing models for infrastructure investment

■ Co-ordinate infrastructure funding submissions from the state and its agencies to the Australian Government and other bodies.

They key first test of Infrastructure Victoria will be whether the government is prepared to make bi-partisan appointments to it.

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