

# Funding and financing local government infrastructure

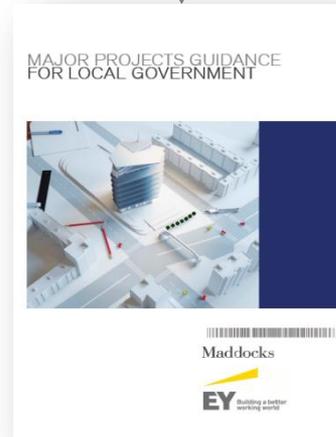
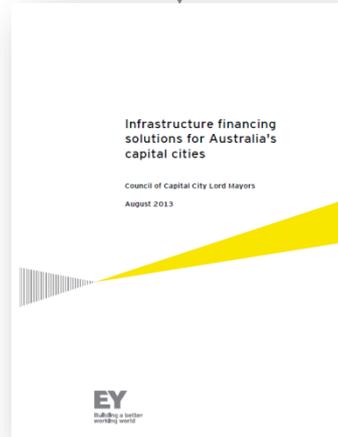
National Local Government Infrastructure and Asset Management Conference

7 May 2014  
Darrin Grimsey



# The story so far

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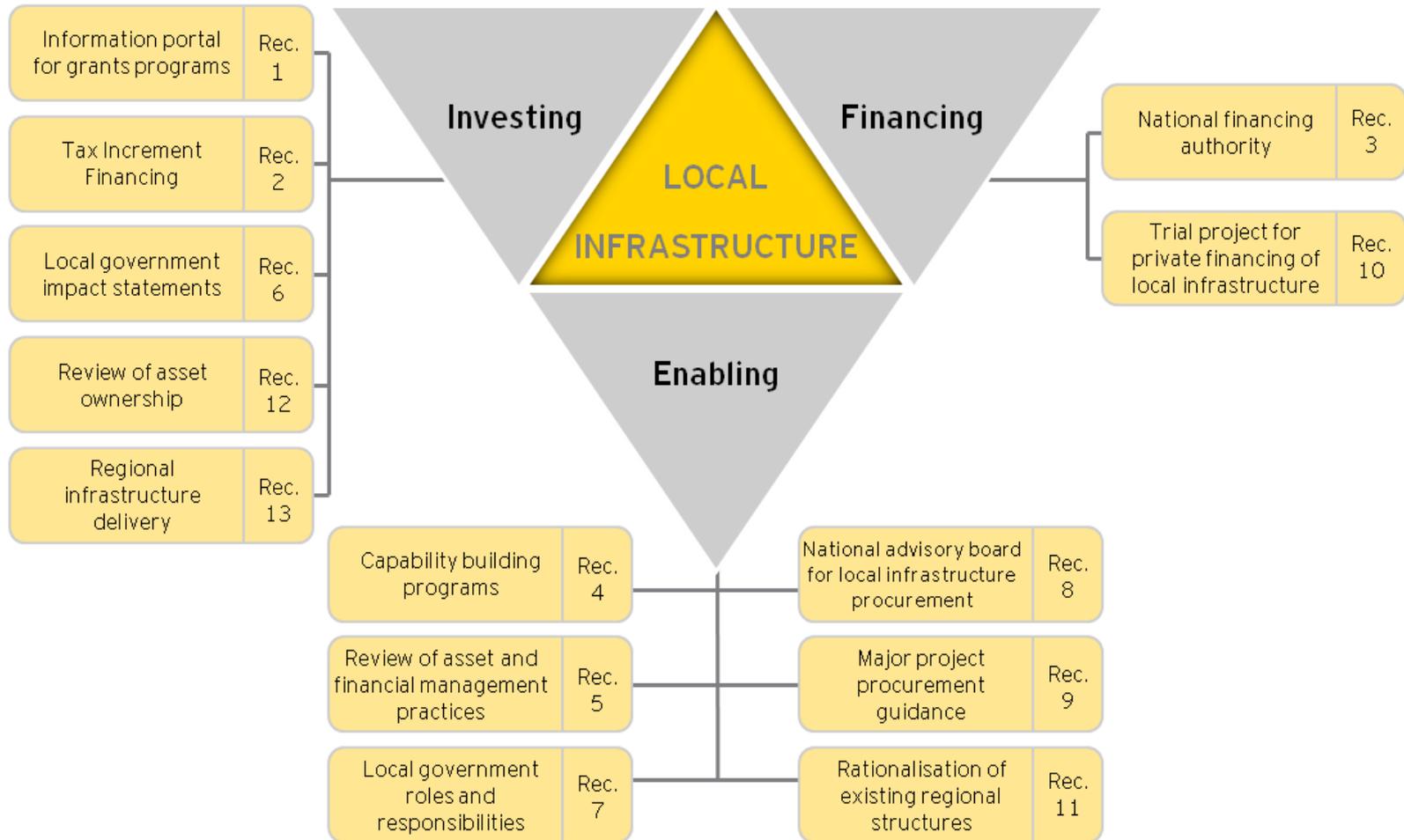


# ***Strong Foundations for Sustainable Local Infrastructure***

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- ▶ Released by Minister Crean in June 2012
- ▶ Broad consultation - every state and territory
- ▶ 13 recommendations
  - ▶ to enable councils to leverage existing funding sources for investment in new infrastructure
  - ▶ to improve councils' access to cost effective finance
  - ▶ to improve councils' ability to identify and develop infrastructure and gain access to specialist skills necessary to deliver innovative financing solutions.

# Strong Foundations for Sustainable Local Infrastructure



# *Strong Foundations for Sustainable Local Infrastructure*

## **Funding sources and their limitations**

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### Recommendation

#### **1. Information portal for grants programs**

The Australian Government should develop a portal to bring together information and application material relating to local government grants programs in a single location



### Update

None. Potential update of GrantsLINK was suggested, but not rolled out.

# *Strong Foundations for Sustainable Local Infrastructure*

## **Borrowing for infrastructure investment**

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### Recommendation

#### **2. Tax increment financing**

The Australian Government should work with the states and territories to investigate the legislative changes that would be required to enable councils to introduce Tax Increment Financing.

#### **3. National financing authority**

The Australian Government should work with the states and territories to investigate the feasibility of establishing a national financing authority to aggregate local government borrowing and facilitate the creation of debt products for private investors

### Update

→ Growing interest in Value Capture and alternative value-driven financing solutions. Value Capture studies in Victoria, WA, Queensland.

Public transport levy on Gold Coast Rapid Transit.

→ Follow-up study commissioned by Commonwealth (see later).

Municipal Association of Victoria collective financing vehicle.

# Strong Foundations for Sustainable Local Infrastructure

## Prioritising local infrastructure investments

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### Recommendation

### Update

#### 4. **Capability building programs**

Programs of targeted training and capability building



*Major Projects Guidance for Local Government* to be launched in May/ June and supported by training program.

#### 5. **Review of asset and financial management practices**

Independent reviews of the implementation of Nationally Consistent Frameworks



None

#### 6. **Local government impact statements**

As part of the business cases, where there is likely to be a direct cost impact upon local government



None

#### 7. **Local government roles and responsibilities**

Clear steps to achieving better clarity of the roles and responsibilities of each tier of government.



None

# Strong Foundations for Sustainable Local Infrastructure

## Creating value through the procurement process

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### Recommendation

### Update

**8. National advisory body for local infrastructure procurement**

To provide skills and oversight of local government infrastructure.

→ None

**9. Major procurement project guidance**

To promote awareness of the spectrum of alternative procurement models for infrastructure delivery

→ *Major Projects Guidance for Local Government* to be launched in May/ June - see next slide.

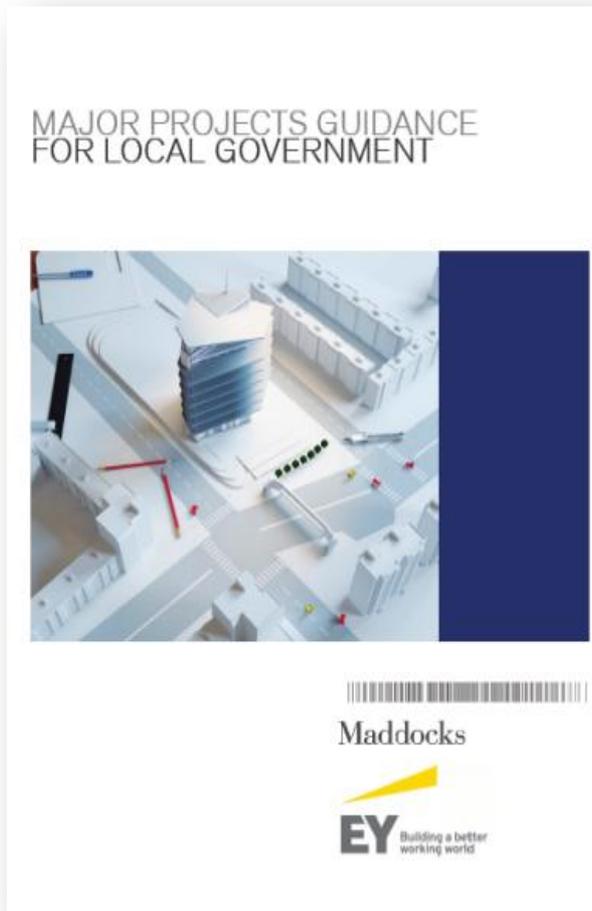
**10. Trial project for private investment in local infrastructure**

A suitable local or regional infrastructure project whereby a market can be “created”, and establish a collaborative group of stakeholders to take the project forward.

→ None officially, but waste-to-energy projects underway in ACT and Victoria (Ballarat), including investigation of innovative finding solutions.

# Major Projects Guidance for Local Government

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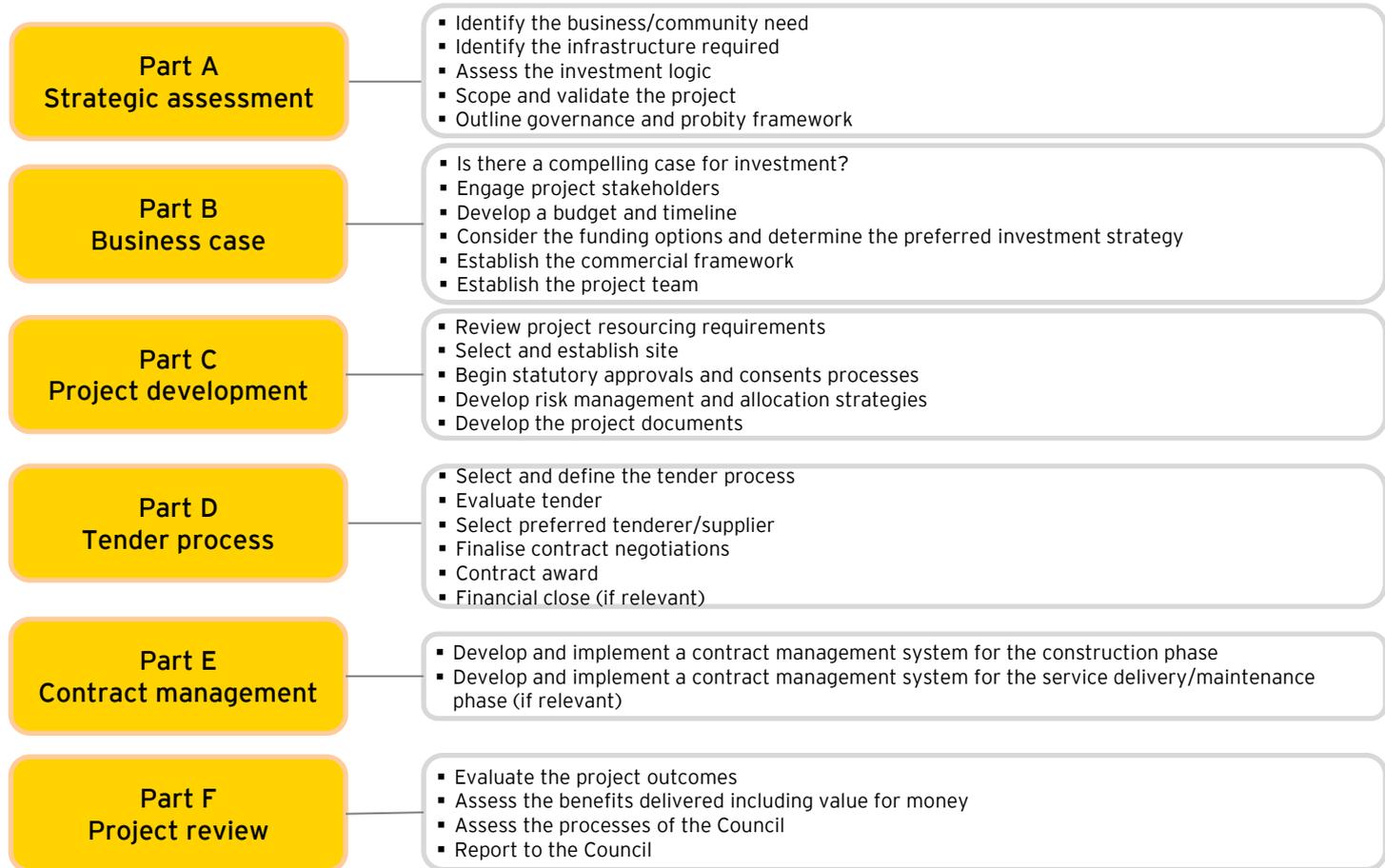


To assist local government to be more effective and efficient in delivering major infrastructure projects by providing:

- ▶ a framework for the development of a **robust business case** and clear **commercial principles** for potential projects
- ▶ a process for identifying and analysing a range of **procurement models** which may be appropriate for major infrastructure projects
- ▶ guidance on **alternative funding and financing structures** to optimise the use of constrained council revenues and budgets
- ▶ guidance on the best use of **external commercial, financial, technical and legal advisors**
- ▶ guidance on appropriate **tender processes, contract documentation** and the documentation of **technical specifications** required to deliver major projects
- ▶ a cohesive and transparent framework for procurement of major infrastructure projects by local government, to give the private sector more confidence in the process and potentially **attract private sector investment**.

# Major Projects Guidance for Local Government Contents

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# ***Strong Foundations for Sustainable Local Infrastructure***

## **Regional capacity and attraction**

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### Recommendation

#### **11. Rationalisation of existing regional structures**

All tiers of government should work together to rationalise and align the regional structures which currently exist.

### Update

 None.

# Strong Foundations for Sustainable Local Infrastructure

## Alternative ownership structures for community assets

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### Recommendation

### Update

#### 12. Review of asset ownership



Local government bodies should review their infrastructure portfolios with a focus on identifying and testing the rationale for continued ownership.

Ongoing work.

Likely recommendation out of Commission of Audit Report.

#### 13. Regional infrastructure delivery



The Australian Government should work with the states and territories to develop incentives that can be given to councils to create formal regional structures with responsibility for delivering and financing infrastructure investments relating to specific asset classes, with a particular emphasis on local roads.

None

# Strong Foundations for Sustainable Local Infrastructure

## What they said

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"We must build partnerships between governments, the community and private sector to meet the demand for infrastructure. I will continue to work with local governments and their associations to progress the issues raised in the Ernst & Young report."

The Hon Simon Crean MP,  
Minister for Regional Australia, Regional  
Development and Local Government

"The report acknowledges that the Australian Government has a role in helping the local government sector create sustainable revenue streams that would provide a direct link between those who benefit from new investments and those who pay for them."

Mayor Genia McCaffery,  
Australian Local Government Association President

"The Coalition welcomes the Ernst & Young report on infrastructure funding and financing for local government."

Senator Barnaby Joyce,  
Shadow Minister for Local Government

"The proposed Local Government Finance Authority at the national level could take on the role of issuing municipal securities and performing the expert role of aggregating, packaging and promoting local government projects to private sector investment. The other major contribution the proposed authority could make is through innovation and lifting our sector's financial literacy."

John Ravlic,  
Chief Executive, Local Government Managers  
Australia

# National financing authority for local government

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- ▶ March 2013
- ▶ Commissioned by the Federal Government to develop recommendation 3 from *Strong Foundations*
- ▶ Review of international precedents
- ▶ Recommended model for collective financing

# National financing authority for local government

## The case for action

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Debt and the infrastructure task:

- ▶ new infrastructure earlier
- ▶ smoothing of payments over time
- ▶ prevent the need to divert funds from internally-generated renewal and maintenance budgets
- ▶ investment in the renewal and lifecycle costs of existing infrastructure
- ▶ costs of infrastructure to be shared with future generations who will enjoy the benefit of the asset
- ▶ new sources of investment



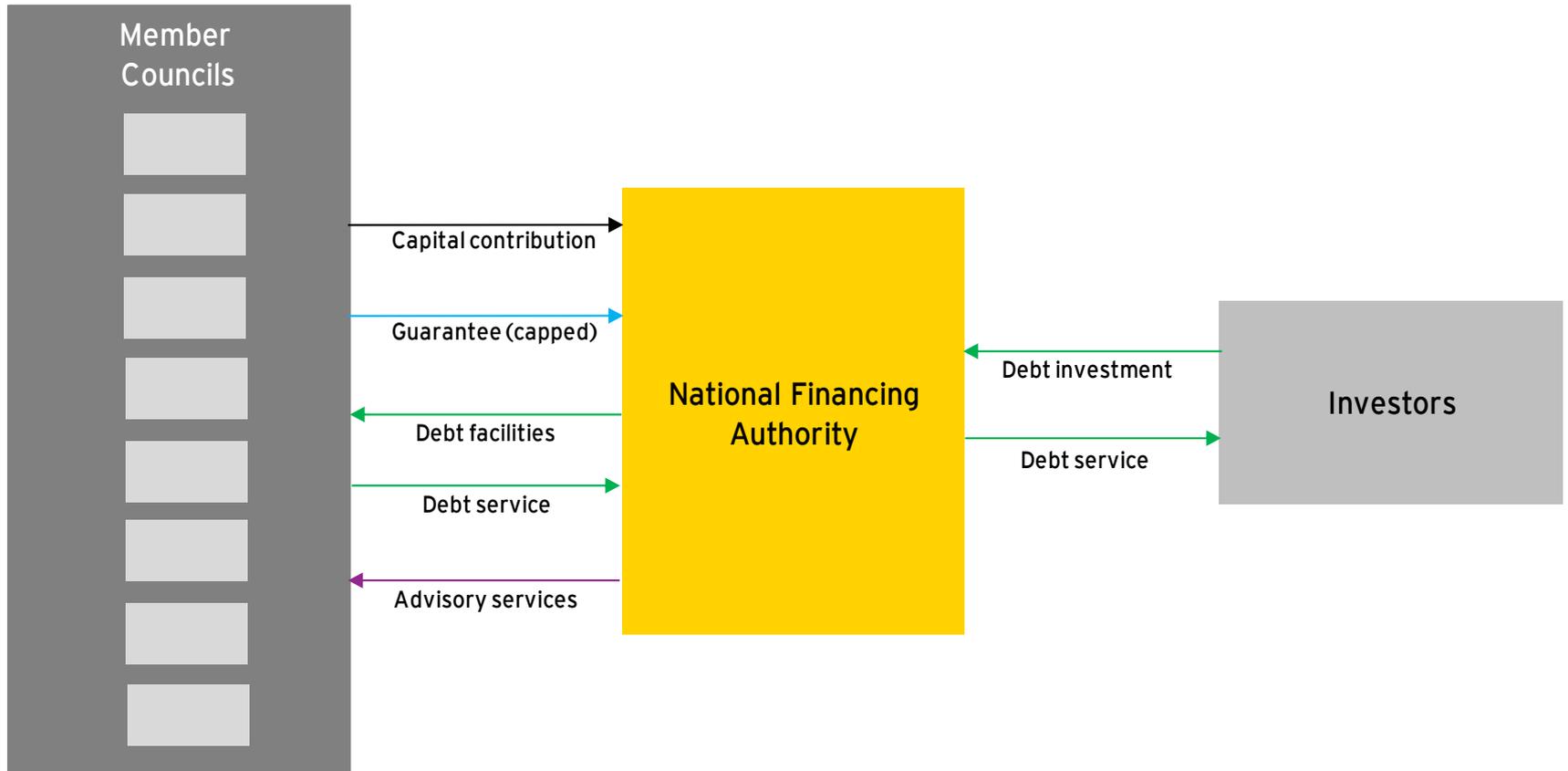
A collective financing solution can assist address the suboptimal use of debt:

- ▶ providing easily-available and competitively priced debt by aggregating risk and supply across many councils
- ▶ increasing the pool of finance by offering structured products to the institutional investment market
- ▶ cultural shift away from the reluctance to borrow
- ▶ enforcing governance and reporting arrangements
- ▶ financial and legal assistance and expertise

# National financing authority for local government

## The recommended solution

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# National financing authority for local government

## The recommended solution

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- ▶ The authority would be an incorporated entity **established and controlled by the local government sector** and would operate under a voluntary membership arrangement.
- ▶ Each member would be required to provide **a minimum amount of capital** which could for example be proportional to average rates revenue. Capitalisation of the authority would satisfy ongoing capital adequacy requirements and could fund establishment costs including any losses in the early years.
- ▶ Each member would be required to implement **a mutual guarantee over the authority's liabilities**, which would be capped in proportion to its financial position or level of borrowing from the authority.
- ▶ There would **be no explicit credit enhancement provided by the Commonwealth, states or territories.**

# National financing authority for local government

## What happened next

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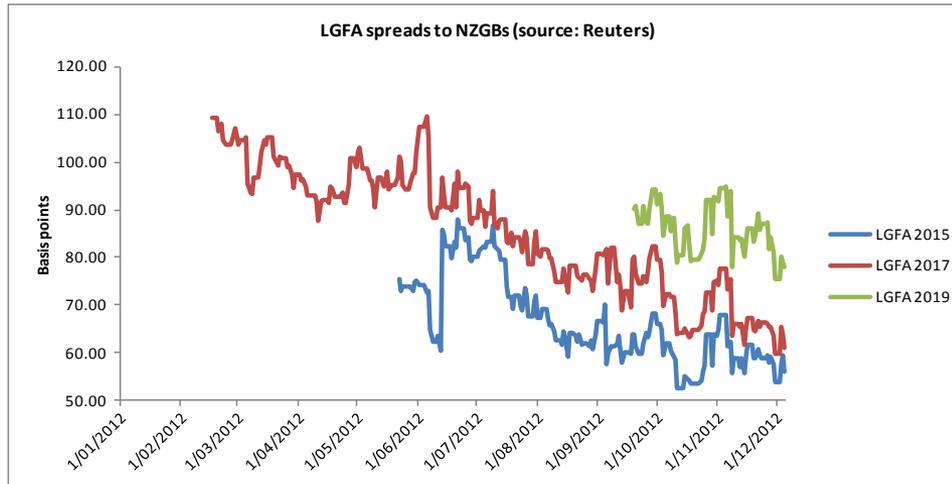
- ▶ Change of government in Canberra
- ▶ Ongoing interest in debt financing
  - ▶ Council of Capital City Lord Mayors
  - ▶ Regional Cities Victoria
- ▶ Victoria - defined benefit superannuation shortfall
- ▶ Further consultation and refinement of the model
  - ▶ No appetite for cross-guarantee
  - ▶ Difficulty in implementing national model

# Collective financing - the NZ experience

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- ▶ **New Zealand** has the most recent experience of establishing a collective financing agency for local government.
- ▶ The New Zealand Local Government Funding Agency was incorporated in December 2011.
- ▶ With nine founder members, it now has 30 councils as members.
- ▶ Within a year it had already released 10 bond tenders, raising in excess of NZ\$1.5 billion, and consistently achieving highly competitive margins over New Zealand Government Bonds.
- ▶ Standard & Poor's and Fitch have both assigned the agency a domestic currency rating of AA+ (the same as the New Zealand Government) and the outlook on these ratings is stable.
- ▶ The New Zealand Government does not explicitly guarantee the agency's liabilities.

# Collective financing - the NZ experience



From a margin over NZGBs of 113 basis points at the inaugural tender, within a year it had narrowed to around 56 basis points over NZGBs.

While the LGFA bonds do not provide as good value as national government bonds, they consistently track at a premium to those issued by a single council, even the largest council in the country, Auckland.

