

*Financing Options for Regional Infrastructure
in Western Australia*



WESTERN AUSTRALIAN
TECHNOLOGY & INDUSTRY ADVISORY COUNCIL

Financing Options For Regional Infrastructure in
Western Australia

Prepared for the
Western Australian Technology and Industry Advisory Council

By

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1 Executive Summary

Background

- 1.1 An issue of current importance to the State of Western Australia and of interest to the nation as a whole is the role that the private sector can play in the delivery of public infrastructure. This issue is particularly relevant to Western Australia in light of its large geographic area, low regional population density and of the expanding development of its resources sector and it is for this reason that the Technology & Industry Advisory Council (“TIAC”) has commissioned this study.

Objective

- 1.2 The formal objective of the study, as defined by TIAC in its Terms of Reference, was:

“To explore financing options for Regional Infrastructure and introduce options for community debate”

This study and subsequent public discussion will assist the development of State Government policy on private sector participation in public infrastructure. The issues raised in the study are put forward to initiate public debate and seek comment from various interest groups.

Scope

- 1.3 The approach taken by the study involved a number of steps, as set out below:
- the review and analysis of existing reports examining the role of the private sector in public infrastructure delivery;
 - interviewing of key Government Trading Enterprises (“GTEs”) to identify how new infrastructure assets are funded, and to ascertain the views of the individual GTEs as to the involvement of the private sector;
 - interviewing of private sector financiers in the banking, insurance, superannuation and life office sectors of the capital markets to gauge the scale of the current market and identify the accessibility criteria for regional infrastructure projects;
 - meeting with the Directors of the nine Regional Development Commissions in Western Australia to discuss and clarify the risks associated with development of infrastructure in regional areas;
 - identify the impediments and constraints to the development of infrastructure in regional areas; and
 - devise and recommend options for improving the accessibility to finance.

Infrastructure - definition

- 1.4 The study adopted the definition of infrastructure summarised by the Public Accounts Committee of New South Wales in its paper titled “Infrastructure Management and Financing in NSW”, as follows:

“The OECD has made a useful distinction between economic infrastructure, which includes water and sewerage facilities, highways, energy distribution networks, telecommunications and other networked services, and social infrastructure, which includes schools, hospitals and leisure facilities. Both types of infrastructure incur relatively high initial capital costs, have relatively long lives, and should be managed and paid for on a long term basis. Most important, they exist to support other economic and social activities, not merely as an end in themselves.”

Findings

- 1.5 The number of reports available that addressed the issues of private sector involvement in public infrastructure was considerable. Many different views were expressed in these reports, which reflected the attitudes of the various interest groups in the public and private sectors.
- 1.6 The move towards involving the private sector in more and more aspects of the delivery of public infrastructure is seen as inevitable. This is recognised by the State Government and is reflected in the fact that guidelines for the involvement of the private sector are currently being prepared.
- 1.7 Government Trading Enterprises in Western Australia are also moving towards involving the private sector through the user pays concept that has arisen following the commercialisation of many GTEs. Costs and risks that were previously borne solely by the State are now being shared or passed on completely to the private sector.
- 1.8 There is a need to define the separation of responsibility of the State, versus the responsibility of the Commonwealth, in relation to the delivery of public infrastructure. Particularly in Western Australia, with its vast resource sector, where the Commonwealth receives significant benefits in the form of income and other taxes from the companies that utilise public infrastructure and the people that work for them.
- 1.9 Any options proposed to improve the development of public infrastructure in regional areas of Western Australia must recognise the responsibility that the Commonwealth has in relation to the ongoing development of the State.

- 1.10 From a private sector financing aspect, both the scale and sources of funds have increased dramatically in recent years. Much of this growth has been led by the increase in private sector investment in the Eastern States, in areas such as toll roads and privatised utilities.
- 1.11 As a consequence of the majority of the financiers being headquartered in Sydney and Melbourne, however, certain impediments exist in the form of the distance, both physically and conceptually, between the financial markets and those requiring finance.
- 1.12 This distance results in many projects in regional Western Australia never coming to the attention of the decision makers. Often this is seen as a lack of understanding on the part of the finance seekers of the requirements of the financiers, and little understanding by the financiers of the region, its demographics and its resources.
- 1.13 The risks associated with the development of infrastructure in regional areas are not dissimilar to those existing in urban areas, but may have unique characteristics due to the size of the projects, the remoteness of the location or the impact on the regional economy in which the project is being constructed.
- 1.14 A related problem is that many projects in regional Western Australia are small in comparison to projects in the Eastern States and therefore do not fit the needs of the financing institutions in relation to rates of return and risk profile.

Options

- 1.15 The State Government of Western Australia should investigate the establishment of a Regional Infrastructure Register that would link in to the Commonwealth funded Institutional Investor Information Service (“IIIS”). The focus of the Register would firstly be to assist project proponents in bringing their projects to the “investor ready” stage, and secondly in taking those projects to the funding markets. Funding necessary to meet the establishment of this scheme and its ongoing operation could be met by the Commonwealth through specific grants to the State.
- 1.16 Currently the State Government does not have guidelines for the involvement of the private sector in the development of regional infrastructure. Clear guidance should be made available, utilising the experience of other states that have previously prepared similar policy documents.
- 1.17 To assist in transferring the necessary skills to those in regional areas who wish to develop infrastructure projects, a system of regular training workshops should be instigated. These workshops would train project proponents in the necessary skills of how to adequately research and package a project so that it will be in a form that is ready for the funding markets to analyse. Again, both the Commonwealth and the State Government have responsibility to assist in the financing of workshops of this nature as they derive direct benefits from any resulting developments.

- 1.18 A means of raising funds for the development of public infrastructure that has been successful in the United States is the use of a Regional Infrastructure Development Fund. Funds could be raised through the issue of bonds that satisfy the Development Allowance Authority Act criteria for certification to access the benefits of available tax concessions. It should be noted that bonds certified in this manner, termed Develop Australia Bonds, are currently limited on a yearly basis by the Commonwealth Government due to a cap on the amount of tax that the Commonwealth is willing to forego. The Commonwealth has a responsibility to the State to ensure that this restriction does not operate to reduce the scale of funds available for regional infrastructure development.
- 1.19 The State Government should consider the potential of bundling smaller projects to make them more attractive to the funding markets. Existing resources in place at the Department of Commerce and Trade or the Department of Resources Development could be utilised for this purpose.
- 1.20 Investor tours, similar to those used in other states, should be organised to bring the decision makers from the funding markets in the Eastern States to the regions of Western Australia where the projects are proposed. The tours would act to increase knowledge transfer between the funding markets and those seeking funding.

2 Introduction and Terms of Reference

- 2.1 The State of Western Australia has a total land area exceeding 2.5 million square kilometres or approximately 32 per cent of the total land area of Australia. In contrast, the population of the State in June 1995 was approximately 1.73 million, or less than 10% of the Australian population of 18.05 million. Western Australia's population is projected to increase to almost 10.2% of Australia's population by the year 2010.
- 2.2 Should these projections be achieved, Western Australia will annually be accepting a higher proportion of immigrants from overseas, as well as migration from interstate, than the national average in the years leading up to 2010.
- 2.3 For development purposes the State is divided into a number of regions. These do not represent a level of government or administration. In the regions themselves, which vary widely in terms of their population, climate, natural resources and land area, there are approximately 480,000 people in an area of 2.5 million square kilometres. These regions are:

Kimberley

- 2.4 Located in the far north of the State and approximately 2,300 kilometres from Perth, the region has a land area of 421,451 square kilometres and a population in 1995 of 24,968. The major industries of the region are diamond mining, horticulture, tourism, lead/zinc mining, oil and gas exploration, beef cattle, pearling and aquaculture.

Pilbara

- 2.5 Approximately 1,646 kilometres from Perth, the Pilbara region has a land area of 510,000 square kilometres which is approximately 20 per cent of the State's total area. The majority of the region's population of 42,960 and the main industries are located in the western third of the region and comprises iron ore mining, oil and gas extraction, gold mining, tourism and salt production.

Gascoyne

- 2.6 The Gascoyne is the State's smallest regional economy with its main population centre, Carnarvon, lying approximately 900 kilometres north of Perth. The region has a land area of 140,912 square kilometres (about twice the size of Tasmania) but a population of only 10,213. The major industries of the region are fishing, tourism, irrigated horticulture and salt production.

Mid West

- 2.7 The Mid West region extends along the west coast of the State from Greenhead to Kalbarri. With a land area of 472,336 square kilometres the region is almost a quarter of the total area covered by the State. The region has a population of 50,343 and its major industries include gold and mineral sands mining, broadacre farming, livestock production, tourism and fishing.

Wheatbelt

- 2.8 This region adjoins Perth and has an area of 154,051 square kilometres and a population of 70,942. As the name of the region suggests, the main industry is wheat and wool growing, but other significant industries in the region include mineral sands and gold mining and fishing.

Goldfields - Esperance

- 2.9 The largest of Western Australia's regions, the Goldfields - Esperance region has a land area of 724,407 square kilometres and a population of 55,431. The north of the region is dominated by gold and nickel mining and processing and the south with agriculture and livestock pasturing.

Great Southern

- 2.10 The Great Southern region lies at the far south of the State and has a land area of 40,529 square kilometres and a population of 50,533 people. With some of the most productive agricultural land in the State, the major industries include broadacre crop and livestock production, wool, horticulture, viticulture, timber and fishing.

South West

- 2.11 The South West region, approximately 180 kilometres from Perth has a land area of 23,682 square kilometres and a population of 111,653 people. The major industries include coal, alumina, mineral sands, retail trade, agriculture, manufacturing, timber, timber and tourism.

Peel

- 2.12 The Peel region, immediately south of Perth, has a relatively small land area of 5,700 square kilometres but a population of 61,782 people. The major industries are bauxite and gold mining, mineral processing, agriculture, timber, fishing and tourism.

- 2.13 One issue of importance to the State is the development of the regional areas of Western Australia to take advantage of the resources available, and the resultant demands for infrastructure. More particularly the focus at present is on the ability of the State to provide the required infrastructure, and how the private sector can improve on this delivery.
- 2.14 In its role as an advisory body to the Minister of Commerce and Trade, the Technology & Industry Advisory Council (“TIAC”) is seeking to bring the issue of the delivery and funding of infrastructure in regional Western Australia into the public domain for comment through the commissioning of this study by Price Waterhouse.

Study Objective and Terms of Reference

- 2.15 The formal objective of the study, as defined in the TIAC Terms of Reference, was:

“To explore financing options for Regional Infrastructure and introduce options for community debate”

- 2.16 The specific terms of reference were:

- 1 Identify and evaluate reports, studies and other work that has previously addressed the issue of infrastructure funding particularly within non metropolitan regions.*
 - 2 Identify sources and scale of available finance suitable for funding of:
- private infrastructure; and
- public infrastructure.*
 - 3 Examine the policies of Government Trading Enterprises with regard to how these agencies finance infrastructure requirements.*
 - 4 Specify accessibility criteria for funding relevant to regional infrastructure projects by source.*
 - 5 Evaluate key risk factors impacting on finance approval for each region and compare and report against interstate benchmarks;*
 - 6 Identify and report on impediments or constraints to infrastructure development in regional areas of Western Australia, including planning, legislative (eg. Stamp Duties Act) and structural considerations; and*
 - 7 Devise and recommend options or mechanisms for improving accessibility to finance for regional private and public sector infrastructure proposals in Western Australia.*
- 2.17 This study will be the first stage in a process that will eventually lead to the development of government policy on both public and private participation in public infrastructure.

- 2.18 The purpose of the study is to identify options for improving the financing of regional infrastructure in Western Australia that can be presented to both the government and the private sector for consideration.
- 2.19 The study is intended to stimulate debate and further refine the issues surrounding the funding of regional infrastructure.
- 2.20 The study has focussed on the impediments to infrastructure development from a financing perspective, as identified through discussion with both the potential providers of finance and those seeking infrastructure projects in regional areas.
- 2.21 The responses received to the issues and suggestions put forward by the study will be used as a basis for further studies in this area to be commissioned by TIAC.

Infrastructure - definition

- 2.22 The Terms of Reference did not include a definition of infrastructure for use in undertaking the study.
- 2.23 The Public Accounts Committee of New South Wales in its paper titled Infrastructure Management and Financing in NSW Report - No.73 summarised its definition of infrastructure as follows:

“The OECD has made a useful distinction between economic infrastructure, which includes water and sewerage facilities, highways, energy distribution networks, telecommunications and other networked services, and social infrastructure, which includes schools, hospitals and leisure facilities. Both types of infrastructure incur relatively high initial capital costs, have relatively long lives, and should be managed and paid for on a long term basis. Most important, they exist to support other economic and social activities, not merely as an end in themselves.”
- 2.24 From the reports previously produced addressing the financing of infrastructure, and from our assessment of recent developments, it is clear that the approach to infrastructure, whether in urban or regional areas, has changed significantly over the years.
- 2.25 Economic infrastructure assets such as transport (roads, rail etc.), power (electricity and gas) and water supply and social infrastructure (hospitals, schools etc.) have traditionally been supplied by governments (predominantly State governments) and have been considered public assets.

- 2.26 The current climate of increasing budgetary constraints on governments, coupled with continued growth in the needs of the community for infrastructure, have led to a situation where the provision of such large scale capital works is not solely the realm of governments.
- 2.27 Consequently we have broadly defined “infrastructure” as those assets which provide an ongoing stream of services and confer economic and social benefits not being separately distinguishable as public or private. What can be distinguished as public or private, or a combination of the two, is the means of financing infrastructure.

3 Study Approach

- 3.1 The format of the study and this report has been to examine each of the Terms of Reference as separate but interrelated tasks.
- 3.2 The following fieldwork addressing the Terms of Reference for the study was performed:

Reports

- 3.3 Various reports were obtained through the Department of Commerce and Trade, other contributing government agencies, as well as seminar papers delivered on the topic in magazines, at conferences and in other forums. Source documentation in relation to existing legislation and government guideline papers was also obtained.
- 3.4 These reports were reviewed and the issues raised documented and formed the basis for further work. An important aspect of this review was to examine the information source to understand any biases that may underlie each article or commentary.

Interviews with Government Trading Enterprises (“GTEs”)

- 3.5 A list of GTEs was compiled in conjunction with TIAC and meetings were held with the selected managers of the GTEs to obtain their views on the financing of infrastructure.
- 3.6 These meetings were also used to obtain the views of others on the current availability of infrastructure funding whether it be from the public or private sectors.

Interviews with financiers

- 3.7 A list of the key people involved in the financing of infrastructure from the banking, insurance, superannuation and life office sectors of the capital markets was developed and an intensive interview program performed both in Western Australia and in the Eastern States.
- 3.8 The purpose of these interviews was to obtain information on the funding markets in the current climate. The interviews were also used to determine the key accessibility criteria of the selected institutions when examining infrastructure projects.

Meetings with Regional Directors

- 3.9 The need to obtain input and comment from those involved in delivering services in regional Western Australia was seen as a priority and hence meetings were held with the Regional Directors of the nine Western Australian Regional Development Commissions, namely:
- Kimberley;
 - Pilbara;
 - Gascoyne;
 - Mid West;
 - Goldfields/Esperance;
 - Wheatbelt;
 - Peel;
 - South West; and
 - Great Southern.
- 3.10 First contact was made through the distribution of a questionnaire which sought to identify the main issues in relation to the financing of regional infrastructure. A draft of the risk table included in this report was also prepared for comment by the Regional Directors.
- 3.11 The comments made by the Regional Directors have been incorporated into the body of this report in the various sections to which they relate.

Use of other reports and information

- 3.12 Other reports that have addressed the area of private sector funding of infrastructure and actual examples of such involvement were sourced from the press, through contact with the participants themselves or review of other published information.
- 3.13 A full list of those contacted during the preparation of this report has been included as Appendix 2.

4 Summary of Findings

4.1 As a guide to the overall findings of the study, a summary of the major issues arising in relation to each of the terms of reference or “tasks” is summarised below.

Task 1 Identify and evaluate reports, studies and other work that has previously addressed the issue of infrastructure funding particularly within non-metropolitan regions.

4.2 The body of literature available addressing the issue of infrastructure funding is considerable. This literature includes reports prepared by and for State and Commonwealth governments, articles published by both private and public sector authors and papers presented at seminars. Appendix 1 provides a full list of reports reviewed.

4.3 One perception is that government funded infrastructure is too expensive and that the involvement of the private sector would add the necessary efficiency that is required and is apparent in an open and competitive marketplace.

4.4 This perception is reflected in the continued calls for budgetary restraint at both a State and Commonwealth level, however the need for growth in the economy, and consequently the need for new and improved infrastructure is also acknowledged. In this respect, whilst the door is open for private sector involvement, the necessity to retain a degree of government control to promote the ability to meet community needs is recognised.

4.5 The opportunities that exist for the private sector are identifiable and readily apparent, but many in the private sector believe that the public sector is not experienced in working with the private sector, particularly when it comes to the use of the available private sector funding mechanisms.

4.6 From a State level there is a view that State funded development of infrastructure helps the private sector businesses that need the infrastructure to operate, and therefore provides benefits to the Commonwealth government through income taxes, but rarely provides a direct identifiable return to the State government.

4.7 The State Government has shown its commitment to increasing the involvement of the private sector through the move towards the corporatisation of many of its trading enterprises. These enterprises are now looking at the provision of infrastructure from a commercial point of view. In many cases this leaves them with only two options in relation to uneconomic infrastructure. Refuse to provide it unless the end users bear the true costs, or have the State Government commit to bear any shortfall through a payment in the form of a community service obligation.

4.8 Whilst many examples exist of the commitment of the State to infrastructure development, there is a perception that more needs to be done by the Commonwealth, particularly in light of the fact that the State contributes significant revenues to the Commonwealth as a result of development in the resources sector.

Task 2 Identify sources and scale of available finance suitable for funding of:

- a) **private infrastructure; and**
- b) **public infrastructure.**

4.9 In the current market infrastructure can be delivered wholly by the government or it can be delivered under some form of partnership between the government and the private sector.

4.10 The widely reported boom in the resource sector of Western Australia will lead to an increase in demand for supporting infrastructure.

4.11 The scale of funding available is subject to the restraints on governments, both State and Commonwealth, and this results in less money being available in budgets to fund projects. What is available has been allocated many years in advance. The trend is therefore to transfer as many of the risks associated with the provision of infrastructure from government, which traditionally has borne all of the risks, to private sector participants.

4.12 The sources of private finance available for infrastructure projects has necessarily grown in response to the growth in demand, as has the scale of the funds provided by these sources. Private financing can be either in the form of debt or equity.

4.13 Debt funding sources include the traditional banking sector and in the current market the scale of bank funding could be said to be limitless. With the need to diversify portfolios, the banking sector has expressed a willingness to invest in infrastructure projects and this has been evident through recent projects.

4.14 Other debt sources include Develop Australia Bonds and Capital Indexed Bonds and more innovative structured bank debt to suit individual project needs. Equity financing can be through direct investment in a company set up to build, own and operate the project or through a public float of shares or units in a trust.

4.15 The scale of funding in these areas has increased dramatically in recent years, however much of this investment has occurred in the Eastern States.

- 4.16 One of the goals has been to match the unique nature of infrastructure projects, particularly those in regional areas, with appropriately structured financing. One of the issues has been the term of the funding. With infrastructure projects generally stretching out over long periods, it has been necessary to find funding sources that match these terms. This has seen a growing focus on the institutional market as long term debt can be matched to the long term investment needs of the larger institutional funds.
- 4.17 In addition it has been necessary to address the issues relating to the returns available on regional infrastructure which can tend to be lower than returns on comparatively sized investments due to the nature of the underlying assets. Develop Australia Bonds have been introduced for this purpose. The bonds take advantage of the Commonwealth taxation concession on the income earned to pass on a benefit through a lower rate of interest to the borrower.
- 4.18 It is important to ensure that the funding sources or providers are brought together with the project proponents.

Task 3 Examine the policies of Government Trading Enterprises with regard to how these agencies finance infrastructure requirements.

- 4.19 The Government Trading Enterprises (“GTEs”) in Western Australia have undergone significant changes in recent years. The restructuring that has occurred, including the corporatisation of many GTEs, has been performed in preparation for the move to a competitive environment.
- 4.20 Where once such entities were an inseparable arm of the government being funded out of consolidated fund, they are now functioning as self-funding (in most respects) corporations.
- 4.21 The policy changes that accompany this change in status are reflected in the way that the GTEs meet their financing needs in relation to infrastructure.
- 4.22 Whilst the majority of large infrastructure is in place, such as the Dampier to Bunbury Natural Gas Pipeline for AlintaGas, and the power stations for Western Power (with the notable exception of the Collie Power Station which is currently under construction), there is the issue of how future upgrades or modifications to existing infrastructure, and new infrastructure to service new customer needs, will be provided.
- 4.23 The focus from the GTE point of view is on cost recovery, whether it be on a user pays basis or based on government subsidies. This is a necessary step when the strategic direction of the State Government is to open up the traditional monopoly industries to competition.

4.24 The policies of the GTEs are also in a state of constant revision, as they gauge what effects competition will have on their performance in their respective markets, and how they should best cope with them.

Task 4 Specify accessibility criteria for funding relevant to regional infrastructure projects by source.

4.25 The accessibility criteria differ in terms of the detailed requirements that are specified by individual sources, but there are criteria that are common to all funding sources when considering the financing of regional infrastructure.

4.26 Prior to seeking financing, appropriate feasibility studies must have been performed to assess whether a project will stand alone in terms of cash flows and rate of return or whether it will be necessary to seek government enhancements.

4.27 Once a proponent has determined that a particular regional infrastructure project is feasible, subject to obtaining the required funding, the proposal must be documented in a form that will ensure that any financier approached will have the requisite information to make an informed decision.

4.28 The focus of any assessment of a project proposal will be to provide assurance to the financier that the project will be a success and that the proponent has the requisite skills to ensure that the project is taken from the conceptual stage to the completion stage. This will also have to occur within the timeframe and cost limitations of the proposal.

4.29 The financier's overriding criteria is the need to be convinced that once a project has reached the completion stage it will be able to meet the projections in relation to cash flows to meet the debt servicing requirements (or in the case of equity an adequate return to the equity investors).

4.30 The following table summarises accessibility criteria for the various funding sources.

Funding Source	Summary of Accessibility Criteria
Bank Debt	Bank/lender understands project risks Bank/lender satisfied of proper return for risk
Infrastructure Bonds	Per Development Allowance Authority requirements
CPI Bonds	Bank/lender understands project risks Bank/lender satisfied of proper return for risk
Direct Equity (Private and Institutional)	Adequate return to investor Risks properly identified and managed
Public Issue	Prospectus Independent experts reports Australian Securities Commission requirements (Corporations Law) Australian Stock Exchange Listing Rules
Government funding (borrowing and consolidated fund)	Political risk Loan Council Budgetary considerations

Task 5 Evaluate key risk factors impacting on finance approval for each region and compare and report against interstate benchmarks.

- 4.31 It is apparent that risks in relation to infrastructure projects in regional areas are similar to risks in urban areas but have unique characteristics due to the size of the projects involved, the remoteness of the regions and the significance to the regional economies that the projects will impact.
- 4.32 One of the most important steps in ensuring that a regional infrastructure project is successful will be the early identification of the risks involved and, in the case of a project where the private sector and the public sector have agreed to share the risks, the allocation of those risks.
- 4.33 Market risk , which relates to the risk of whether there will be a market for the goods or the service that the project will produce, will be important to a regional project due to the distance from large cities and populations.
- 4.34 Construction and completion risk, which relate to the risks associated with the project being constructed in accordance with the appropriate specifications and under the time frame set in the agreements, will also have a higher profile in regional areas due to the distances the necessary materials will have to be transported over and the harsh nature of the environments that are often experienced.

- 4.35 The risk that the project will be impeded due to special considerations of the site that it is being constructed on, are particularly relevant to regional areas of Western Australia due to the Native Title Act and its application.
- 4.36 That all parties, both in the public and private sectors, should be aware of the risks involved in regional infrastructure developments is an unquestionable fact.

Task 6 Identify and report on impediments or constraints to infrastructure development in regional areas of Western Australia, include planning, legislative (eg. Stamp Duties Act) and structural considerations.

- 4.37 There are a large number of infrastructure development projects that are currently planned or under consideration in regional Western Australia. There is also in existence in Australia a reasonably developed funding market that has experience and interest in both equity and debt investment in regional infrastructure developments.
- 4.38 That these two sides of the “infrastructure equation” are not more in touch with the other makes it clear that there are impediments to the development of regional infrastructure projects.
- 4.39 These impediments are evident in the views of the proponents and financiers and generally fall into distinct categories.
- 4.40 Communication is a problem that is yet to be addressed. There has been a recent surge in the private funding of infrastructure projects in both regional and urban areas of Victoria and New South Wales, but this surge has not been experienced to the same extent in Western Australia despite the identified scope for resource development.
- 4.41 One reason for this is that there are inadequate lines of communication between the project proponents and the funding providers and decision makers who are generally located in Sydney and Melbourne.
- 4.42 Understanding of the regions of Western Australia, the needs of the population and the projects that are available also flows from this geographic separation.
- 4.43 Adequate guidelines for the involvement of the private sector have yet to be fully developed or documented, and experience in other States suggests that care should be taken in ensuring that these guidelines, when developed, do act to support and encourage rather than impede development through private sector involvement.
- 4.44 The size of the projects available in regional Western Australia compared to the needs of the funding institutions in relation to rates of return and risk profile can also mean that many of the projects available are too small to be considered.

Task 7 Devise and recommend options or mechanisms for improving accessibility to finance for regional private and public sector infrastructure proposals in Western Australia.

4.45 The following options or mechanisms are proposed to overcome the impediments noted above and to address the concerns raised by the participants to regional infrastructure developments.

Option 1

4.46 The State Government of Western Australia should investigate the possibility of establishing a Regional Infrastructure Register. The register could list “investor ready” projects which would be communicated to appropriate funding market institutions through both hardcopy reports and via an Internet site.

Option 2

4.47 The State Government prepare guidelines for the involvement of the private sector in the development of regional infrastructure in Western Australia. These guidelines should set out the Government’s policy and give clear guidance in relation to risk allocation, government assistance, assessment and approval criteria and funding. Specific notice should be taken of the experience of other States in relation to the operation of similar guidelines.

Option 3

4.48 Training workshops should be planned and conducted on a regular basis in the regions to give local proponents of infrastructure projects the necessary training and skills in what funding providers require and how they should best go about obtaining finance and advice.

Option 4

4.49 The State Government should investigate the establishment of a Regional Infrastructure Development Fund. The needed funds could be raised through the issue of bonds that satisfy the Development Allowance Authority Act criteria for certification so as to access the benefit of the available tax concessions. The goal of the fund would be to advance the development of the regions through investing both equity and debt into a wide range of projects. The fund should also aim to be self funding and involve professional fund managers.

Option 5

- 4.50 The Government should consider using the resources of the Department of Commerce and Trade and the Department of Resources Development to bundle small projects of similar nature in either location or project to make them more attractive to the funding markets and perhaps rank the projects in terms of priority.

Option 6

- 4.51 Investor tours should be organised to bring representatives of the funding markets to the regions where the projects are proposed. The aim of the tours would be to increase knowledge transfer between the funding markets and the regions and could be linked to other programs at minimal cost

5 Identify and evaluate reports, studies and other work that has previously addressed the issue of infrastructure funding particularly within non metropolitan regions

- 5.1 The list of reports and studies available that address various facets of the provision of infrastructure in regional areas is extensive. A full list of the reports reviewed as part of this study has been included at Appendix 1.
- 5.2 The purpose of this section is to highlight some universal views, identify where controversy exists and draw some preliminary conclusions based on the commentary in the literature.

Universal views

- 5.3 Across all of the literature available there is some consistency in terms of the views expressed. These views have been set out in the subsequent paragraphs.
- 5.4 The focus on governments to introduce accountability in the use of public funds has meant that there has been an increased level of research into the ways and means of reducing inefficient capital expenditure without reducing the level of services provided.
- 5.5 Governments need to retain a degree of control over infrastructure delivery to ensure that all needed infrastructure is delivered and addresses the needs of the various interest groups.
- 5.6 It is also recognised, however, that whilst budgetary restraint is necessary, the need for continued growth is evident in the economy at both a State and Commonwealth level.
- 5.7 Additionally, given finite public sector finances, the involvement of private sector investment can free up public funds for other purposes thereby increasing the overall level of capital expenditure and service provision in the economy.
- 5.8 Taxation in general is still considered to be a stumbling block to increased private sector investment in infrastructure projects. The ability to utilise the benefits available from the early tax losses that are inherent in many large infrastructure projects is perceived as being difficult under the current structures available for private sector involvement.

Controversy

- 5.9 Whilst many authors advocate private sector involvement in the provision of infrastructure because it is seen as a means of reducing the overall cost, there are opposing views that state that infrastructure delivered by the private sector is not cheaper and in some case may be more expensive over time.

- 5.10 From a State perspective the development of infrastructure is often seen as offering little in the way of financial returns directly to the State government. Infrastructure development provides opportunities for private sector wealth creation which is taxed by the Commonwealth, thus rewarding the Commonwealth government without it having to invest or assume any of the inherent risks.
- 5.11 This is an extreme view as infrastructure development that promotes business activity will benefit the State through the input to overall economic activity and the monetary benefits to the State received via payroll taxes, stamp duty and other State taxes and charges.
- 5.12 Getting the private sector involved is not necessarily a guarantee of a smooth run. It is felt that the public sector still needs to become more experienced in understanding the intricacies involved in joint public/private sector infrastructure development.
- 5.13 Many States have produced guidelines for private sector investment in infrastructure that set out the policy of the respective State government. The State Government of Western Australia is also in the process of producing such guidelines. It should be noted that there has been significant criticism in other States in relation to the operation of such guidelines. This criticism has largely related to the focus on process, probity and the cost to the private sector of the tendering process.
- 5.14 There is a general perception that the cost of infrastructure provided by governments has been too high and indicative of inefficiency. This perception has led to calls for reforms that will introduce efficiencies in the provision of infrastructure.
- 5.15 The view is also widely expressed that disproportionately less money is returned to the State by the Commonwealth to further the development of the State than is received in taxes and royalties.

Preliminary conclusions

- 5.16 The dichotomy of need for fiscal restraint and continued growth introduces significant potential for private sector involvement in the provision of infrastructure.
- 5.17 The move over time has been from infrastructure being the sole responsibility of governments to a partnering of government and the private sector in the delivery of a broad spectrum of infrastructure.
- 5.18 For this trend to continue there needs to be a concentration on working towards meeting the needs of the community whilst satisfying the requirements of both parties, that is, providing adequate returns to private sector investors and value for money for governments.

5.19 One way of measuring efficiency is the use of benchmarks or key performance indicators. Many supporters of private sector involvement see it as an opportunity to introduce benchmark levels for performance that should be used by public sector agencies in obtaining further internal improvements. Currently, however, whilst there is much talk of benchmarks and the use of key performance indicators in relation to public versus private sector delivery of infrastructure there is little published data available and any benchmarking suffers from a lack of directly comparable performance and cost indicators.

5.20 The advantages available from partnerships include:

- Better allocation of risk

The principle of allocating risk to those best placed to manage it leads to better control and management of project risk at the outset.

- Better incentives to perform

With private sector involvement, payment to the private sector contractor only starts when a satisfactory flow of services is provided and ongoing payments depend on meeting agreed performance criteria.

- Innovation from close integration of service needs with design and construction.
- A clearer focus on the respective responsibilities of public and private sectors which more clearly reflects the strengths of each. The public sector can concentrate on what service should be provided, leaving the private sector to consider how it can best be delivered.
- A continuing commercial incentive for efficiency throughout the design, asset creation and operation of the project.
- More potential for efficiencies and for shared experience, by the provision of assets supplying a wider range of customers.
- New investment opportunities. This is the case with financially free standing projects or with joint ventures in which the private sector is only seeking limited public funding. In such cases projects may proceed which otherwise may not have developed had they been mainly dependent on public funds.
- Projects may proceed earlier than if conventionally funded.

6 Identify sources and scale of available finance suitable for funding of:

- a) private infrastructure; and**
- b) public infrastructure**

6.1 In considering the provision and financing of infrastructure projects in the current market, two broad categories of infrastructure delivery can be identified:

- wholly government provided infrastructure (ie. the traditional view of infrastructure); or
- a partnership between government and the private sector, where the private sector participants take some or all of the risks associated with a project.

6.2 The possible financing options in the current market have been considered under these headings.

Government Financed Infrastructure

6.3 In a traditional government financed infrastructure project, the public sector finances its own construction and operation of the project from revenue received from the sale, if any, of the product and/or from consolidated fund (taxes and charges) or by borrowing.

6.4 The construction can either be performed using the Government's own resources (eg. Main Roads using its own staff to design and construct) or by a private sector entity under a design & construct contract.

Design and construct contracts

The use of private sector entities to construct infrastructure is a concept well known to Main Roads. Both the Narrows Bridge, completed in 1959, and the Mt Henry Bridge, completed in 1983, were constructed by private sector entities under design and construct contracts.

6.5 Where a public sector agency decides to fund an infrastructure project using borrowings, it may not have the legal capacity to take on debt (such an act may be *ultra vires*). Typically in these cases a central Government agency such as the Western Australian Treasury may be called upon to arrange the debt and then provide funding to the agency.

- 6.6 Where a public sector agency seeks funding through Treasury, it must follow the Project Initiation Process (“PIP”) released by Treasury. The guidelines, released in June 1995 for capital investment in non-residential buildings, now apply to all projects and replace the earlier Capital Works Approval Process. The PIP aims to support and guide agencies through a logical sequence of planning and analysis. It starts with the establishment of needs, development of strategies and options and leads to final solutions. Following this process will result in solutions that are well founded, that are readily understood and be more likely to proceed unchanged.
- 6.7 The scale of funding available at any particular point in time will depend on the commitments for capital expenditure already made by the government under the budget. Projects are assessed on their overall benefits, both economic and social, to the State and ranked according to their relative net benefits.
- 6.8 It is our understanding that in Western Australia the Capital budgets for the State have been estimated and committed for the 1996/97 year and indicative allocations have been identified in the Forward Estimates for 1997/98 to 1999/2000. For a significant project to obtain financing from Treasury, therefore, it would need to replace another similar sized project in the budget.
- 6.9 If a government chooses to borrow the funds, these borrowings will be subject to Loan Council requirements like any other government debt.
- 6.10 While Loan Council issues are no longer the restriction they were, there is an emphasis on public disclosure and procedural compliance.
- 6.11 The form of borrowings can be either those available to the private sector, which have been separately outlined in this section, or by the issue of government bonds. These bonds vary from short to long term in nature and may have a fixed or floating coupon rate.

Private Sector Financed Infrastructure

- 6.12 Australia is currently experiencing a surge in private financing of infrastructure and resource developments. In the first quarter of 1995, approximately \$12.2 billion was raised in the loan markets - three times the amount borrowed in the first quarter of 1994. (source - PFI - Asia Pacific Market Report / Summer 1996)
- 6.13 Much of this increase in the level of financing is a result of the privatisation of five Victorian power distribution and retailing companies, which raised approximately \$8 billion. The large infrastructure financing of Yallourn Energy and Melbourne City Link also raised approximately \$3.5 billion during 1995.
- 6.14 There have also been smaller projects funded during this period, such as hydroelectric schemes and water filtration plants.
- 6.15 This large level of funding carries an important message for project proponents in

Western Australia as it clearly shows the level of funding available for infrastructure financing in the marketplace.

- 6.16 Private sector financiers, whether they be the more traditional financial institutions such as banks, or the emerging superannuation and fund management sector institutions, have publicly expressed an interest in becoming more involved in the funding of infrastructure projects, of both the big and smaller sized projects. Some funds are now specifically targeting the \$5 million - \$10 million projects.
- 6.17 There are many types of private sector participants looking to fulfil different roles in the delivery of infrastructure and there are many private sector institutions looking to not only finance but also take on project risk (for which they expect to receive a commensurate return).
- 6.18 In many cases of private sector financed infrastructure, government is still required to contribute to the project to ensure its financial viability. There is an increasing reluctance on the part of Governments to subsidise projects involving the public sector. In the past this form of support has taken the form of:
- direct government contribution, especially during the construction phase;
 - a revenue subsidy; or
 - a guarantee.
- 6.19 The last two forms of assistance operate to provide adequate and reliable cash flows that give investors more security. Examples of these arrangements are:

The Sydney Harbour Tunnel where the financing utilises a form of Government contribution based on estimated toll revenues. The privately owned operated and funded 4 lane tunnel was built parallel to the existing 8 lane Government owned bridge. The financing agreement involves an “ensured revenue stream”, where by the tolls collected on both the Tunnel (privately owned) and the Harbour Bridge (Government owned) are combined to provide a minimum cash flow to the operator. In the event that these tolls do not reach an agreed level, then the Government contributes to that amount.

Another example of the use of “shadow tolls” is in the UK for the current \$2 billion expansion of the motorway network. In this form of financing, a private operator builds, owns and operates the roadways and receives a toll for each vehicle that uses the road. But rather than the driver paying the toll, the Government makes payments on their behalf. The operator (and hence financier) is still subject to “traffic” risk (ie the number of vehicles that use the road) but does not require toll gates as the payment is collected from the Government.

- 6.20 When the financing is to come from the private sector the critical issue is determining what type of financing should be provided. The form and structure of the financing will depend on a number of factors, including the roles that different private sector parties are looking to undertake in the project, the relevant tax laws (both State and Commonwealth), the inherent risks and the nature of the project.
- 6.21 Typically private sector financing of infrastructure projects is through a mix of debt and equity in the approximate proportions of 70-80% debt and 20-30% equity. Different forms of debt and equity are outlined further below.

Debt Funding

- 6.22 The forms of debt available include:

Standard bank debt

- 6.23 Standard bank debt comes in a number of different forms in relation to the repayment facilities available. An important factor to note in the financing of infrastructure projects is that a bank will be more willing to be involved where a consortium or “syndicate” of banks is to provide the financing to the project.
- 6.24 The use of a syndicate has a number of benefits to an individual bank or financial institution. Predominantly the benefits are the fact that any one of the financiers in the syndicate is exposed to less credit risk than were they to finance the whole project themselves. In addition the up front costs to the financial institution (eg. documentation, risk assessment etc.) are reduced because they are spread across the syndicate participants.
- 6.25 An example of a proposed bank financed infrastructure project is the infrastructure for the Anaconda Nickel project at Murrin Murrin which has been described below.

Anaconda Nickel

Anaconda Nickel (“Anaconda”) is a Western Australian company seeking to develop nickel and cobalt deposits at Murrin Murrin, approximately 200 kilometres north of Kalgoorlie. The company has stated that once developed, it expects the mine to produce approximately \$25 billion worth of nickel over a 30 year period.

To bring the project to the production stage, it is estimated the approximately \$900 million of capital expenditure will be required, and Anaconda is currently seeking partners to provide the required capital.

Recently, Anaconda announced that a consortium had been formed to build, own and operate the project's power, water, acid and industrial gas plants along with providing the project's accommodation needs. It is intended that the consortium will transfer the assets at no cost to Anaconda at the end of a 15 year period. The funding of the consortium has been arranged through a banking syndicate assembled by NatWest Markets.

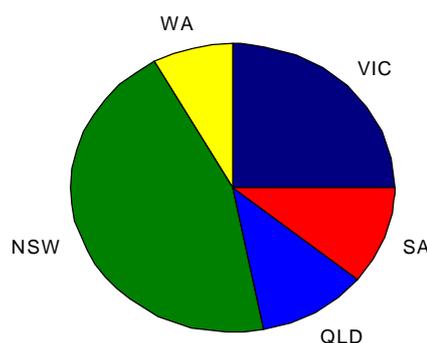
This arrangement means that the initial cost of getting the project "off the ground" has been reduced by approximately \$290 million. Whilst leading to a slightly higher operating cost, it is an example of one way that innovative financing and delivery of infrastructure can assist the development of the State's resources.

- 6.26 The scale of bank funding could be said to be limitless. With the need to diversify portfolios, the banking sector has expressed a willingness to invest in infrastructure projects and this has been evident through recent projects.

Develop Australia Bonds

- 6.27 The name "Develop Australia Bonds" is the marketing term used for any form of infrastructure borrowings authorised under the Development Allowance Authority Act. Project proponents can apply to Invest Australia, an organisation comprising the Development Allowance Authority ("DAA") and its Secretariat (the DAA is a single person statutory office currently occupied by Mr George Brouwer).
- 6.28 Under the Develop Australia Bonds program, infrastructure bonds do not have to be bonds in the strict technical sense of the word. They can be any form of borrowing which meets the criteria of the DAA.
- 6.29 The Develop Australia Bond program can accommodate investments of up to \$2.5 billion per year, with expected total investments of \$10 billion by 1998, before approaching the tax based revenue cap.
- 6.30 Of the projects approved and under consideration by the DAA (\$6,578 million) only 7.5% or \$499 million relate to Western Australian projects (primarily the Goldfields Gas Pipeline and the Parkeston Power Station).

DEVELOP AUSTRALIA BONDS
Value of Projects Approved and Under Consideration
by Geographic Location



6.31 Two significant Western Australian projects that have already been certified by Invest Australia are the Goldfields Gas Pipeline (approximate project cost of \$455 million) and the Parkeston Power Station (\$44 million).

6.32 Examples of the potential for using this form of funding for infrastructure projects within Western Australia are listed in the following table prepared by Invest Australia as possible projects for the scheme:

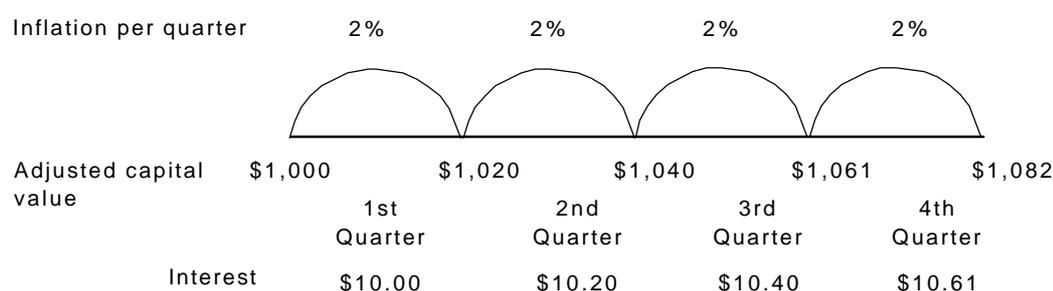
Project Name	Location	Project Detail	Project Cost \$million
Albany Craft Port Pen	Albany	Marina	2
AlintaGas Pipeline Upgrade	Dampier to Bunbury	Pipeline upgrade	Not given
Alkimos Wastewater treatment development	Alkimos	Treatment plant	Not given
Anaconda Nickel NL	Murrin Murrin	Water, Gas fired electricity, rolling stock	700
Collie Power Station	Collie	300MW generating station	Not given
Kalbarri Airport	Kalbarri	Airport	2
Kalgoorlie 62MW Diesel Power Electric	Kalgoorlie	62MW Diesel powered electricity plant	Not given
Kalgoorlie Water Enhancement Supply Project	Kalgoorlie	Water supply	Not given
Lower South Dandalup Pipehead	Dandalup	Pipehead	15
Onslow Port, Electricity and Gas	Onslow	Port facilities	10
Ord River - 30MW Hydro-electric Project	Lake Argyle	30Mw Hydro-electric	Not given
Ord River Irrigation Scheme - Stage II	Kununurra	Irrigation	152
Perth Northbridge Tunnel	Perth	Road and tunnel	204
Port Hedland - BHP Newman	Port Hedland	Gas fired power station	Not given
Rous Head extension - Stage Two	Fremantle	Harbour	4
Subiaco Wastewater Treatment	Subiaco	Treatment plant	9
Woodman Point Wastewater Treatment Plant Upgrade	Cockburn	Treatment plant	Not given

(source - Invest Australia Fact Sheets)

- 6.33 Infrastructure bonds operate by making the interest payments of the borrower non-deductible for tax purposes, whilst the interest income is exempt in the hands of the lender (ie. effectively the benefit of the interest deduction is transferred to the lender).
- 6.34 Under this scenario the lender is willing to lend at a lower interest rate. This has a direct effect on the overall cost structure of the project and its ultimate viability. It may also bring forward the timing of the benefit of the deduction, because typically infrastructure projects have a long lead time before tax is payable, whereas an investor is likely to receive the effective interest deduction immediately.
- 6.35 The accessibility criteria for infrastructure bonds is discussed in Section 7.
- 6.36 The scale of funding available under this form of financing should only be limited by the attractiveness of the project. As at 19 July 1996 the total value of projects approved or under consideration for Develop Australia Bonds was \$6,578 million {Invest Australia Fact Sheet}. It should be noted, however, that the Commonwealth Government has capped the amount of bonds that can be certified by linking it to the amount of tax that it is willing to forego. The Commonwealth has a responsibility to ensure that this cap does not affect the funds available for the development of the State.

Capital Indexed Bonds

- 6.37 An attractive form of financing to investors worried about the effects of inflation on the capital value of their investment (which is a consideration given the long term nature of infrastructure projects) is the use of capital indexed bonds.
- 6.38 The rates of return to an investor from this form of lending vary with the rate of inflation because the capital value of the bond is linked to the consumer price index ("CPI"). A fixed real rate of interest is paid on the adjusted capital value and, at maturity, investors receive the inflation-adjusted capital value of their investment.
- 6.39 Assume, for example, that an investor purchases a capital indexed bond with a face value of \$1,000 and an interest rate of 4% per annum (1% per quarter). The capital value of \$1,000 will be adjusted quarterly to reflect the movement in prices, and interest will be calculated on the adjusted capital value. Assuming an inflation rate of 2% per quarter, the adjustments for the first year are shown in the figure below:



Equity Funding

6.40 The forms of equity investment include the following:

Direct investment by the proponents in the project company

6.41 The project proponents may determine that the best way to fund the project is by incorporating a private company in which each of the project proponents takes a shareholding.

6.42 Typically such a company will be set up on a non-recourse or limited recourse basis. The essence of such a structure is that the project must be viable on its own, and any borrowings and risks are confined to the project company. Borrowings must be repaid from the project's cash flows, not by the proponents, and guarantees and other forms of support are limited or non-existent. In this way the project's debt financiers will be asked to participate in the project's risk, and will therefore seek a corresponding reward.

6.43 The structure may alternatively be that the proponents invest a proportion of the funds required and the balance is borrowed by the company in its own name.

Direct investment by infrastructure funds

6.44 In the current market many large financiers, such as AMP, GELLCO and the AIDC have infrastructure funds that take equity positions in projects and other market participants such as Macquarie Bank are setting up new funds.

6.45 It is estimated that there is in excess of \$2.5 billion available in these funds for investment in infrastructure projects. At this time, virtually no investment of these funds has been made in Western Australia.

6.46 Often these institutions will be looking to invest large sums, in the range of \$10 to \$20 million, which may limit the applicability of this form of funding to infrastructure investment in regional areas since many projects may be smaller in size.

6.47 The superannuation funding market, which has yet to have made significant investment in infrastructure assets, is estimated to have in excess of \$150 billion in funds.

A public float of shares or units in a trust, requiring a prospectus

6.48 It is also possible to form a public company or public trading trust under which the project can be developed. This will give the public the opportunity to invest in the infrastructure that they may well be using on a day to day basis.

6.49 It is important to remember that this form of equity investment will again generally be applicable only to larger projects or a collection of linked smaller projects.

Government - Private Sector Partnerships

- 6.50 The alternative delivery mechanism for infrastructure projects is to involve the private sector in various aspects of project provision, including designing, building, financing, owning or operating the assets. This form of delivery has funding advantages because:
- (a) it reduces the amount of public funds required by supplementing with private sector funds; and
 - (b) public sector involvement allows the private sector access to funds that may not otherwise have been available due to the risk profile of particular projects.
- 6.51 In this way the public sector is helping the private sector meet its needs in respect of providing an adequate return to investors and the private sector aids the public sector in servicing the community's needs.

7 Examine the policies of Government Trading Enterprises with regard to how these agencies finance infrastructure requirements

7.1 In consultation with TIAC the following Government Trading Enterprises (“GTE”s) of the State Government of Western Australia were chosen to be included in this study:

- Western Power Corporation;
- AlintaGas;
- Homeswest; and
- Water Corporation.

7.2 As part of the State Government’s focus on corporatisation, GTEs in Western Australia have undergone significant changes in recent years in terms of their structure and focus.

7.3 Understanding these changes is an important part of understanding the policies that the GTEs have with respect to their infrastructure needs.

7.4 Due to the diverse nature of the services provided by the various GTEs and the policies used by them in financing their infrastructure needs, each GTE has been dealt with separately in this section.

Western Power

7.5 Western Power was established in January 1995 from the split of the former energy monopoly, the State Electricity Commission of Western Australia (SECWA). Western Power now operates as a commercial operation.

7.6 When providing additional infrastructure for existing or potential users of power in Western Australia, the policies that are employed by Western Power with respect to how that infrastructure is funded will depend upon where in the State that the infrastructure is to be located relative to the existing supply and generation infrastructure.

7.7 The map below shows the power systems and infrastructure of Western Power.



7.8 With reference to the map, the table below details Western Power’s policy for the financing of infrastructure for power supply.

	Small business & residential	Large, industrial & mining
Outside shaded area		
Capital cost	Full cost of extension	Full cost of extension
Power cost	Uniform tariff	Uniform tariff or negotiated contract rate
Within shaded area		
Capital cost	Fixed cost based on factors such as: - existing vs new subdivision - distance from pole - underground vs overhead	Charge on the basis of the 80/20 rule: - 20% up front - 80% of revenue going forward
Power cost	Uniform tariff	Uniform tariff

- 7.9 This policy, however, is subject to clarification in many respects on a case by case basis and should therefore be used as a guideline only. Comments in relation to the guidelines above have been set out in the following paragraphs.
- 7.10 Where a consumer is required to pay all or part of the capital cost of connection, Western Power will take into account the individual circumstances and negotiate payment terms (which may involve deferred payment). Such payment terms will be included in a contract between Western Power and the consumer. It should be noted that for residential or small business clients, where the capital cost is relatively small, this option for negotiating payment terms is not available.
- 7.11 In almost all cases, mining companies will pay the full cost of capital (however full payment may not be required up front and a contracted tariff including a portion of capital may be negotiated).
- 7.12 When considering the capital cost of connection no account is taken of charging a consumer for costs that extend “back to the power station.” That is, capital costs are only those costs that relate to the additional infrastructure required to connect the consumer to existing supplies.
- 7.13 Under the current system it is also the policy of Western Power to review an application from a regional customer to determine whether the connection to Western Power’s grid is the most economic choice. If Western Power determines it to be cheaper for the consumer to construct its own generator then it will not connect the customer.
- 7.14 Western Power, as with most of the GTEs in Western Australia, is still in the process

of developing its pricing structures to meet the needs of the new competitive environment being introduced by the State Government. As such the policies set out above may change in the future to reflect changes in the strategy with respect to the recovery of costs.

- 7.15 Currently there are two pilot programs in operation to put existing overhead power lines underground, one in Albany and one in Melville. The funding of these programs is being shared between the State, the respective local governments and Western Power and significant contributions from the rate payers of the respective councils. As these projects extend to other towns/suburbs it is Western Power's intention to fund that portion of the costs of conversion calculated as being commercially viable to Western Power, which may be less than the third contributed in the pilot programs.

Homeswest

- 7.16 Homeswest is a State Government agency set up to provide housing for those Western Australians that cannot otherwise afford housing. Homeswest achieves its goals by arranging finance for low income earners to buy homes at affordable rates or by offering rental accommodation at subsidised rental rates.
- 7.17 In general, Homeswest can be said to be self-funding in relation to its infrastructure needs. The funding of housing infrastructure developments in regional areas is obtained from three main sources.
- 7.18 Firstly, existing housing assets of Homeswest provide a strong rental cash flow which provides capital for re-investment. Funds are also made available from the sale of existing housing and land assets to the public.
- 7.19 Secondly, grants are made available to Homeswest from the Commonwealth government which are used for various projects, including the development of housing infrastructure in regional areas.
- 7.20 Thirdly, Homeswest operates the Keystart scheme which provides housing loans to low to middle income earners who are unable to access traditional sources of finance. The funds for this scheme are obtained through the retail banking markets and passed on to the individual borrowers at competitive rates. Any net loss of the scheme is met out of the operating cash flows of Homeswest, but to date the scheme has been profitable.
- 7.21 One of the examples of Homeswest financing regional infrastructure is the arrangement it has entered into with a number of regional towns and shires.

- 7.22 Funds are provided at low rates of interest to fund the construction of housing needed by the particular community. The “need” in this sense is identified by the town or shire which consequently bears the risk of recovery of the capital cost through the subsequent sale.

Water Corporation

- 7.23 The former Water Authority of Western Australia (“WAWA”), was restructured into two bodies in January 1996. The Water Corporation (“the Corporation”) took the responsibility for the supply of water to end users, and the Water and Rivers Commission took on the responsibility for maintaining the quality and measurement of water resources. In addition to these two bodies a third body, the Office of Water Regulation was formed to take responsibility for the issuing of licences to end users and for the regulation of pricing. As with Western Power and AlintaGas, all of these entities are 100% owned by the State Government.
- 7.24 The financing policies for water related infrastructure for existing or potential users in Western Australia differ depending upon the location of the end user, similar to that described above for Western Power. The policy also differs between users depending upon the amount of water that they use and can be summarised as set out in the table below:

	Policy
Less than 50kl/day	
Capital cost	Standard Statewide charge per residential equivalent which is based on 40% of the average cost of headworks.
Ongoing cost of delivery	By-law cost
More than 50kl/day	
Capital cost	Subject to special agreement to be entered into with the Corporation: Full capital cost as a lump sum payment (cost based on capacity needed to meet the consumer’s peak demand).
Ongoing cost of delivery	Actual cost

- 7.25 This policy is currently being reconsidered for the circumstances of the Corporation. Where the Corporation is the monopoly supplier the standard agreement will apply but may be varied if it is in the interests of both the Corporation and the customer. Where the Corporation is in competition with other water service providers, agreements will be negotiated which maximise the long term return to the Corporation.
- 7.26 Since its restructure the Corporation has also identified those areas of service delivery

that are unprofitable and specifically relate to services that are provided as part of the broader economic, environmental and social needs of the community.

- 7.27 In particular the Corporation has looked at the cross subsidies that have historically applied to regional areas for the shortfall on water, wastewater, drainage and irrigation services. Such services are inherently more expensive due to the lower density of users and the distance from existing water supply infrastructure.
- 7.28 This area of service provision has, along with other areas, been designated as Community Service Obligations (“CSOs”) as they do not generate sufficient revenue to cover the cost of provision but are of importance to the community as a whole. The cost of these services is met out of a payment from Consolidated Fund of the State Government. Future increases in CSO payments will have to be made in light of budget considerations.
- 7.29 The system of CSO payments also provides the opportunity for private entities to consider providing the service in place of the Water Corporation (which was not possible when the Water Corporation funded the provision internally).

AlintaGas

- 7.30 AlintaGas was the second entity established in January 1995 from the split of SECWA and, as with Western Power, AlintaGas now operates commercially.
- 7.31 The business of AlintaGas is split into three areas:
- Transmission Division - the transport of gas through the Dampier to Bunbury Natural Gas Pipeline (“DBNGP”);
 - Trading Division - the purchase, transport and on-selling of gas to major customers; and
 - Tariff division - distribution and sale of gas to residential and business customers.
- 7.32 The main infrastructure of AlintaGas is the pipeline system currently in place to provide the services outlined above. The pipeline system comprises three parts, the main DBNGP, the high pressure lines that lead off this and the final low pressure lines that form the distribution network.
- 7.33 Under the Gas Corporation Act 1994 and the Gas Transmission Regulations 1994 legislation, AlintaGas is required to provide access to spare and developable pipeline capacity on the DBNGP on a non-discriminatory basis.

7.34 The policy with respect to the financing of each of the three types of pipeline infrastructure (and also the ongoing supply of gas) are outlined below:

	To other suppliers	
Access to transmission on DBNGP	Set tariff. This tariff is reset at a minimum interval of every three years and is based on a Capital Asset Pricing Model to recover the capital cost of building or expanding the pipeline.	
	Domestic and small commercial	Major commercial
Distribution - capital	Capital cost of connection is free if within approx 200 metres of distribution lines. Attempt to recover full capital cost if outside this limit.	Full cost of extension. This will be subject to contract negotiation (ie. Can be an up-front payment or may be included in the tariff).
Distribution - tariff	Set tariff.	Full cost of usage (subject to contract negotiation).

7.35 An enhancement to expand the major infrastructure requirement of AlintaGas (ie. the Dampier to Bunbury pipeline) is currently taking place. This enhancement is being funded internally. AlintaGas is also extending the pipeline from Bunbury to Capel and on to Busselton. This extension is also being funded internally.

7.36 Recent developments, such as the Goldfields Gas Pipeline constructed for the Goldfields Gas Transmission Joint Venturers (Western Mining Corporation Ltd, Gold Mines of Kalgoorlie and BHP Minerals), have shown that the deregulated industry allows for significant involvement by the private sector in the supply and distribution of gas.

7.37 Future directions include the provision of open access to the high pressure pipeline which will increase the amount of competition.

7.38 AlintaGas manages its own debt portfolio and the 1996 Annual Report stated that one of the main aims of the entity in the short term is to reduce the level of debt currently held. Funding of any major projects not recoverable directly from the end user will be met from borrowings and operating cash flows.

Conclusion

- 7.39 GTEs in Western Australia are currently in a transitional state as they cope with recent restructuring and prepare for a deregulated and competitive environment in the future.
- 7.40 The policies in place covering the financing of their future need for infrastructure are also in a process of revision.
- 7.41 Generally the GTEs are seeking to recover the full cost of capital for customer specific infrastructure. Major items of infrastructure are funded internally with the possibility of subsequent sale to the private sector should this suit the individual GTEs strategic planning objectives.

8 Specify Accessibility Criteria for Funding Relevant to Regional Infrastructure by Source

- 8.1 Of importance to project proponents, and the regions themselves, are the requirements that will need to be satisfied to obtain funding. The different options for financing have been addressed separately in this section.
- 8.2 The following table provides a broad summary of the accessibility criteria dealt with in detail in this section:

Funding Source	Summary of Accessibility Criteria
Bank Debt	Bank/lender understands project risks Bank/lender satisfied of proper return for risk
Infrastructure Bonds	Per Development Allowance Authority requirements
CPI Bonds	Bank/lender understands project risks Bank/lender satisfied of proper return for risk
Direct Equity (Private and Institutional)	Adequate return to investor Risks properly identified and managed
Public Issue	Prospectus Independent experts reports Australian Securities Commission requirements (Corporations Law) Australian Stock Exchange Listing Rules
Government funding (borrowing and consolidated fund)	Political risk Loan Council Budgetary considerations

- 8.3 The accessibility criteria for the various sources of funding have been set out separately in the following paragraphs.

Government Financed Infrastructure - Borrowings

- 8.4 If the government or one of its agencies wants to borrow to finance a particular project then it must satisfy the Loan Council Guidelines.
- 8.5 The previous Loan Council criteria of adopting a requirement for disclosure of a risk-weighted assessment of public sector exposure in Loan Council Allocations was officially dropped in June 1996 because it required detailed knowledge of the terms and gearing of relevant projects and judgement of the volatility of their net liabilities.
- 8.6 The present approach to projects with private sector involvement is to disclose by way of footnote each State's exposure to termination liabilities.
- 8.7 However, once the Loan Council's requirements have been satisfied, the forms of

borrowing available to the State Government are the same as those available to the private sector.

- 8.8 It is important to note, however, some of the issues that exist when considering debt financing of government funded infrastructure.
- 8.9 Banks normally lend to government agencies on a global basis, rather than for specific projects. Therefore a bank will wish to see a parcel of projects rather than a single project, as this will provide a diversification of risk and a larger total size of investment. The work being performed by the Department of Commerce and Trade and the various regions of Western Australia can provide much of the “bundling” that a financing institution may require, and this has been considered under Section 10 as one of the options for improving access. An example of “bundling” is provided below.

Project bundling

One way of making smaller projects more commercially attractive to the larger institutional investors is to bundle them together to form a larger single investment. A recent example is the *Riverland Water* in South Australia.

In May 1996, the consortium was successful in its tender to finance, design, build and operate 10 water treatment plants in South Australia at an approximate total value of \$100 million. An additional 100,000 South Australians will benefit from the filtered water supplied by the project’s new filtration plants. As construction will take place over three years, the project will bring other economic benefits to South Australia. One of the major investors in the consortium is AMP Investments which will take up to 50% of the equity finance.

This project is a good example of bundling where smaller projects that may not have been commercially viable individually, are packaged together as a single investment.

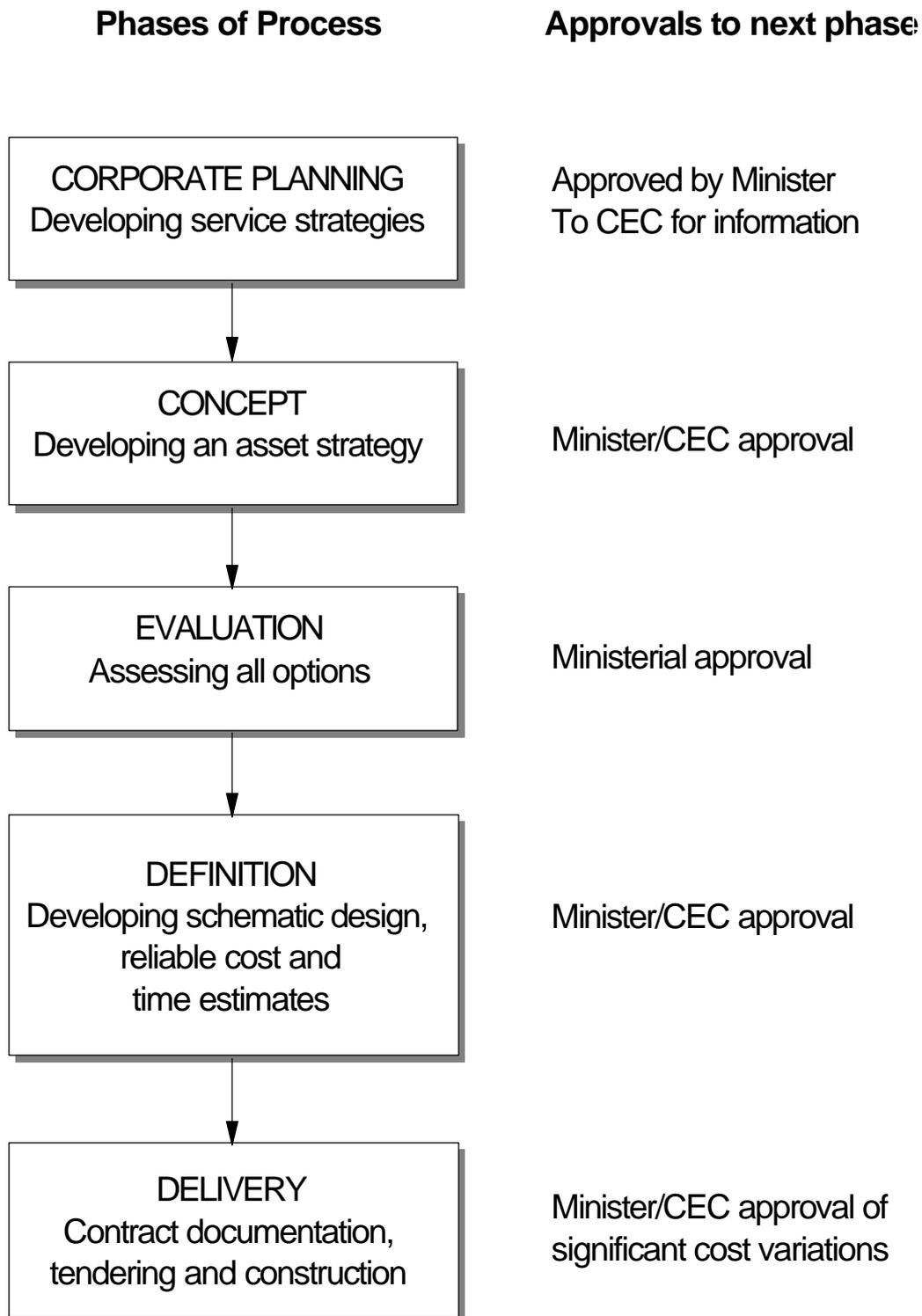
- 8.10 Banks have also tended to offer “off the shelf” products, and do not seek to structure finance to match repayments from project cash flows. Traditionally, many infrastructure projects have remained solely government funded because they have positive economic and social benefits to the State as a whole, but do not provide positive commercial benefits in a financial return sense.
- 8.11 Classic examples are roads in remote regional areas that may provide benefits in the areas of tourism, or access to remote townships, but that would not provide a monetary return, even were a toll to be imposed upon those using the road.
- 8.12 In this sort of a situation standard bank funding that links to a regular repayment over a short time frame and requires some form of security, will be unsuitable.

- 8.13 Banks and other financial institutions are wary of an agency's capacity to borrow funds. This is due in part to market perception, and in part to the fact that private sector institutions have been involved with proposals in the past where they have invested time in the proposal only to be held up late in the process by the legal inability of the agency to contract and commit to the funding.
- 8.14 As a result of some of the issues outlined above, banks and financial institutions have expressed the view that although they are prepared to research and develop new products, they query whether government agencies will understand or use them. Banks would like to see a commitment from government agencies to using such products.
- 8.15 Bank approval processes require a number of "hurdles" to be overcome. For example, an approval process could include obtaining understanding and approval of projects by local credit officers, then the State office, then the head office and finally the Credit Committee of the full Board.

Government Financed Infrastructure - Consolidated Fund

- 8.16 Instead of borrowing for a particular project, the government agency may obtain funding from Consolidated Fund. That is, the project is included in the Government's budget for capital expenditure. This form of funding is provided by Treasury.
- 8.17 For projects to obtain funding from Treasury, they need to follow the Project Initiation Process ("PIP").
- 8.18 PIP involves separate identifiable phases from the Corporate Planning phase (the development of service strategies by an agency) through to the Delivery phase (the contract documentation, tendering and construction of a project). The intent of PIP is to clearly outline the process for agencies seeking funding for projects to follow in order to seek procurement and funding approval.

8.19 The PIP guidelines are available from Treasury and provide step by step guidance for project proponents. The process is outlined below:



(Source - Treasury Guidelines)

Private Sector Financing Accessibility Criteria

- 8.20 Review of the accessibility criteria for financing infrastructure projects indicates that the criteria to obtain finance, whether it be through bank or other forms of debt, or through direct equity participation, are reasonably similar across all sources.
- 8.21 There are specific guidelines for the issuance of infrastructure bonds which have been considered separately in this section.
- 8.22 The Handbook of Australian Corporate Finance (Robert Bruce et al) states that lenders expect three things to emerge from their review of a project credit proposal. The first is undoubted technical and operating management competence. The second is a demonstration by senior management of the sponsors of a thorough understanding of the competitiveness of the project relative to others producing for the same markets, and a development strategy designed to capitalise on the project's relative advantages. The third is an undoubted repayment ability, based solely on the cash flow of the project.
- 8.23 This view can be summarised by stating that financiers seek to understand the "financeability" of a project which can be defined as:
- " . . . establishing where the cash flows come from, understanding the risks inherent in them, and allocating those risks appropriately . . . "*
- 8.24 The main criteria therefore are the existence of cash flows, and risk identification and allocation. The risks associated with regional infrastructure development have been considered separately in Section 8.

Presentation of Project Cash Flows

- 8.25 In relation to regional project proponents, the ability to adequately prepare and present investment proposals to potential investors may not be up to the standards expected by the marketplace.
- 8.26 A financial institution is concerned with the costs associated with investing in a particular project. Up-front costs in particular are a concern as they relate to time spent that will not necessarily be recovered from the project itself. Therefore the less work that a financier has to do in researching the project, or conversely the more professional and detailed the approach of the proponent, the more attractive that project becomes.

- 8.27 The importance of ensuring that project proponents have taken the time to bring the proposal to a stage where it is ready to be “audited” by the investor or financier cannot be overemphasised.
- 8.28 A detailed proposal must be prepared that includes all of the relevant cash flows, both costs and revenues, with supporting documentation or assumptions.
- 8.29 Other aspects of the proposal must also be included to ensure that the proposal is a complete package, for example details of the necessary approvals, site and construction plans and regulatory guidelines.
- 8.30 As a guideline, we have included a pro-forma cashflow for a typical regional project to indicate the type of information that an investor, whether they be a financial institution or an equity investor, will expect to see when assessing a proposal.

SUMMARY FINANCIAL STATEMENTS	Year Ending Dec-97	Year Ending Dec-98
CASH FLOW STATEMENT		
<i>Cash from Operations</i>		
EBDIT		
Working Capital	[A\$'000]	-
Interest Earned on Cash	[A\$'000]	-
Interest Paid on Overdraft	[A\$'000]	-
Interest Paid on term debt	[A\$'000]	-
Tax paid	[A\$'000]	-
Cash flow from operations	[A\$'000]	-
 <i>Cash from Investing</i>		
Capital Expenditure	[A\$'000]	-
Cap Int on Construction Debt	[A\$'000]	-
Contribution to Capex sinking fund	[A\$'000]	-
Drawings from Capex sinking fund	[A\$'000]	-
Cap Int on Term Debt	[A\$'000]	-
Capital Expenditure	[A\$'000]	-
 <i>Cash from Financing</i>		
Private Equity Contribution	[A\$'000]	-
Govt Equity Contribution	[A\$'000]	-
Govt support - Contr cont, debt service subs/rebate	[A\$'000]	-
Govt Funding of Profits/Losses	[A\$'000]	-
Term finance d/downs	[A\$'000]	-
Constr. debt drawdowns	[A\$'000]	-
CPI drawdowns	[A\$'000]	-
Infrastructure debt drawdowns	[A\$'000]	-
Infrastructure repayments	[A\$'000]	-
CPI repayments	[A\$'000]	-
Term finance repayment	[A\$'000]	-
Constr debt repayments	[A\$'000]	-
Financing activities	[A\$'000]	-
Net cash movement	[A\$'000]	-
Opening cash balance	[A\$'000]	-
Net cash movement	[A\$'000]	-
Payment to Government	[A\$'000]	-
Distributions	[A\$'000]	-
Debt Service Reserve	[A\$'000]	-

Accessibility Criteria - Develop Australia Bonds

- 8.31 Invest Australia approves proposals to issue Develop Australia Bonds which as stated earlier can be any form of borrowing and offer concessional tax treatment for eligible private sector investment in Australian infrastructure.
- 8.32 Eligible infrastructure sectors include:
- land transport, including roads and railways;
 - airports;
 - seaports;
 - electricity generation, transmission and distribution;
 - gas pipelines;
 - water supply;
 - sewerage or wastewater installation; and
 - facilities related to the above projects.
- 8.33 Prospective borrowers need to apply to Invest Australia for approval to issue bonds under this scheme. Applications are subject to assessment against criteria contained in the *Development Allowance Authority Act 1992*. A summary of the relevant criteria has been included below:

Application

- 8.34 A person or entity that wishes to borrow money and considers the borrowing to be an infrastructure borrowing may apply to the Development Allowance Authority (“DAA”) for a certificate to issue infrastructure borrowings under Part 3 of the *Development Allowance Authority Act 1992* (“the Act”).
- 8.35 The application must contain sufficient details to enable the DAA to decide whether the borrowing is an infrastructure borrowing and specify dates on which the entity intends to borrow the money and, in the case of a direct infrastructure borrowing, spend the borrowed money in constructing or acquiring any facility concerned and complete specified stages in the construction. Separate requirements are specified in relation to indirect or refinanced infrastructure borrowings (refer Section 93N of the Act).

Assessment criteria

- 8.36 Under Section 93O the DAA must issue a certificate if it is satisfied that the proposed borrowing is an infrastructure borrowing and the dates specified in the application are reasonable. If there is in force at the time at which the DAA proposes to issue the certificate in relation to a borrowing a law that the DAA is satisfied will prohibit or restrict the operation of other facilities in competition with the infrastructure facilities concerned the DAA must not issue the certificate.
- 8.37 In plain terms this means that should the project appear to be feasible based on the information contained in the application, and there are no laws in place that inhibit competition in relation to the project, then the DAA will issue a certificate allowing the borrower to issue infrastructure bonds.

9 Evaluate key risk factors impacting on finance approval for each region and compare and report against interstate benchmarks

9.1 Whether a project is situated in a regional area or in a metropolitan area, the risks of the project can be classified into certain categories.

9.2 These categories include:

- resource risk;
- raw materials and supply risk;
- construction or completion risk;
- operating risk;
- marketing risk;
- management risk;
- interest and currency risk;
- political and regulatory risk;
- casualty risk;
- force majeure risk; and
- refinancing risk.

9.3 Obviously not all of these risks apply to all projects and each project must be assessed individually with the relevant risks identified and documented.

9.4 The identification of risks to be borne by a government entity when financing a project is an area that has generally been overlooked in the past. One of the major reasons being that the government has traditionally provided infrastructure, and consequently the risks were borne as a matter of course.

9.5 When looking at risk as it relates to regional projects many of the risks normally seen with urban projects are increased in terms of their severity. In addition there are many risks that simply do not relate to an urban project.

- 9.6 The key differentiating factors between urban and regional projects are the distance between the projects and the funding sources (communication being the key), the operating risk that will stem from the ability of the project to access the materials and equipment it needs, and the market risk flowing from the project being able to “sell” its product (in the case of tourism the remote location and low population of regional areas is a significant contributor to market risk in certain seasons).
- 9.7 These risks underlie many of the reasons why more urban, Eastern States projects are financed than those in regional Western Australia. It is imperative that project proponents specifically address these risks. There were no indications from discussions with financiers that projects in Western Australia suffered any penalty or premium in relation to financing arrangements or cost.
- 9.8 To highlight the risks that a project financier may encounter when considering financing a regional infrastructure project we have compiled a table setting out risks to be considered when financing a regional infrastructure project.
- 9.9 This list is not meant to be exhaustive and is not set out in any particular chronological order. It is merely intended to identify some of the more important and often forgotten risks that will impact upon the attractiveness of

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
FINANCIAL		
That the project is financeable	<p>The project is not financially feasible.</p> <p>That the project can not be financed.</p> <p>That the right debt/equity mix can be achieved for the project.</p> <p>There is a requirement for agency or government enhancements (ie. the need for the government to provide subsidies or concessional agreements for the project to be viable from a commercial return perspective).</p>	<p>Thorough appraisal should be undertaken including financial feasibility analysis (and economic appraisal if required) of the project.</p> <p>Fall-back position should be developed before implementing eg, formulate position regarding project enhancements.</p> <p>Appropriate advice on financeability should be sought.</p> <p>Credit rating for project should be considered (for very large projects only).</p> <p>Policy and scope for enhancements should be clarified (if required).</p>

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
Interest rates may vary and adversely effect project	Increases financing cost. Requires larger Government contribution.	The possible effects of changes in interest rates on the project need to be considered and included in projections through a "debt capacity" analysis (the need for hedging and the costs thereof should be considered). Equitable government contribution to be determined as policy objective and financing objective.
TECHNICAL		
That the project is not technically feasible That the project does not work	That the project is not technically feasible (if applicable - on the selected site). Technology exists to allow the project to be successfully delivered in accordance with performance criteria.	Appropriate engineering studies should be carried out. General discussions should be had with private sector and/or peak bodies to confirm feasibility.
Design fit for purpose	The design cannot be documented. That the design can be built. The design is not fit for its purpose. Design changes required to achieve objective.	Appropriate proven delivery system should be used. Performance specification should be used rather than detail brief. Review process should be developed to gauge ability of project to be built. Appropriately experienced consultants should be used. Professional indemnity insurance should exist for designer. Performance guarantee should be obtained from designer.

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
Industry has capability to deliver project	Private sector does not have the capability of providing the infrastructure/level of service proposed. Raw materials and components are not available. Technology and innovation can be demonstrated in project.	Discussion should occur with private sector on availability. Discussions should occur with industry and peak bodies to review industry capability. Appropriate procurement system should be selected which facilitates innovative response from proponent.
Materials and Components are available	Availability of materials and components.	Materials and components should be delivered on time and to specified standard of performance.
Equipment is available and delivered	Equipment availability and adequacy.	Equipment should be delivered on time and be capable of performing to the specified standard. Performance guarantee should be obtained from supplier.
REGULATORY		
The performance and results of an Environmental Impact Assessment (“EIA”).	The nature of the responses to the EIS after exhibition.	EIA should be prepared and exhibited. The relevant Industry should be consulted as widely as possible before preparing indicative design and lodging EIA. All issues raised by the public should be provided to tenderers and included in any considerations as to the risks inherent in the project.

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
Environmental Standards	<p>Plant to meet required environmental standards.</p> <p>Law changes with adverse impact on project viability.</p> <p>Changes in Environmental Protection Authority standards.</p>	<p>A Quality Assurance system should be implemented and audited.</p> <p>Concession agreement should include pre-set standards.</p> <p>Concession agreement should include "make good" provisions.</p> <p>Insurance against accidents should be in place.</p> <p>Warranties and guarantees should exist.</p> <p>Mechanism in concession agreement should exist to allow for review of tariff and general conditions if major change in operating environment.</p> <p>Partnering principles in concession agreement.</p>
Possible Heritage, Conservation or Native Title issues impeding the project and the financing.	<p>Native title claims over site.</p> <p>Heritage, conservation and preservation issues in relation to the site.</p>	<p>Research should be conducted into the significance of the site in terms of possible Native title claims.</p> <p>All known or possible heritage, conservation and preservation issues should be assessed in advance in liaison with relevant authority.</p>
Industrial Relations during the construction phase.	Industrial relations management needs to be of an appropriate standard.	<p>Site staff and contractors should be managed to ensure good industrial relations.</p> <p>Site industrial agreement should exist.</p>

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
Occupational Health and Safety	On-site accidents. Unsafe work practices.	Insurance should be in place. Appropriate work practices should be in place. OH & S officer should be appointed (as applicable).
Possible adverse taxation changes.	Changes to taxation law after initial agreement to finance that changes the risk profile. Private taxation ruling required for project.	Tax ruling should be obtained from ATO and no indemnities should be given (by any party to the project). Concession agreement should provide mechanism for review if new tax ruling or changes in tax law were unforeseen and affect project viability.
Need to ensure project complies with all of the relevant Regulations and Standards.	Compliance with Australian and other appropriate authority regulations and standards needs to be reviewed prior to financing.	Private sector, peak bodies, etc, should be consulted to confirm industry "norms". Project should meet all statutory regulations and standards. If no standard exists or standard is to be modified then agency should nominate requirements.
Authority Approvals	State, local government and utilities authorities' approvals. Approval conditions.	All relevant authorities to be consulted in advance to ascertain needs and to determine if approvals are forthcoming. Studies should be carried out to assess requirements to achieve approvals.
Stamp Duty on the agreement(s).	Need to have prior agreement as to who is responsible for the payment of Stamp duty payable on the development agreement.	Responsibility for stamp duty should be determined in line with other allocations and nature of agreement (to ensure an equitable return to all parties).
PUBLIC AGENCY		

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
The level of the particular Agency's Expertise	Agency's ability to manage, procure and deliver the project (ie. the contract management and tendering process).	Agency should ensure that it has the necessary expertise to procure and deliver the project in a timely and competent manner.
The power (ability) to contract with a financier in the private sector.	Agency's power to execute the Development Agreement. Agency contracting as sovereign or will require guarantees from the sovereign (State or Commonwealth).	Legal advice should be obtained as to agency's ability to contract.
Selection Criteria under tender request.	Selection criteria for short list and preferred tenderer.	Appropriate selection criteria should be prepared.

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
<p>Selection/Tender Response.</p>	<p>No acceptable response to selection methodology.</p> <p>Registrations/tenders are in different formats and thus are difficult to compare.</p> <p>Only one acceptable Registration of Interest (“ROI”) received.</p>	<p>Schedule format for critical data should be used.</p> <p>Format for non-critical responses should be nominated if appropriate.</p> <p>Fall-back position should be developed prior to selection process eg formulate position regarding project enhancements.</p> <p>Proposal being offered should be reassessed and modified as appropriate.</p> <p>Assessment criteria should be reviewed.</p> <p>Prior financial analysis should be carried out to determine likely outcome for use as a benchmark.</p> <p>Adequate and appropriate public promotion should occur at ROI stage (and tender if applicable).</p>
<p>Market Demand</p>		

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
The risks in relation to the marketplace in which the project will be operating ("Market Risk").	<p>Market demand and hence revenues increase or decrease significantly (this is especially significant in relation to regional areas where demand may be seasonal).</p> <p>Additional licence, franchise or operating agreement granted to a competitor to operate in the same region/area/market.</p> <p>The impact of demand management by government.</p>	<p>Appropriate tariff structure based on both availability and usage should be used.</p> <p>Implement demand management policies and practices.</p> <p>Concession agreement should provide for review of tariff if operating environment changes substantially.</p> <p>Risk of demand/usage levels should be allocated (generally to the private sector).</p> <p>Undertaking regarding granting of extra operating "permits" should be given.</p> <p>Projections of future demand may be provided.</p> <p>Government to remain free to implement demand management without obligation.</p>
POLITICAL		
Community Acceptance	Community support for project.	<p>Stakeholder management plan should be formulated and implemented.</p> <p>Community should be consulted throughout process.</p> <p>Relevant action or lobby/pressure groups should be targeted for individual briefings.</p>

RISK CATEGORY/TYPE	NATURE OF RISK	COMMENTS
State or Commonwealth views as to the project and the participants.	Political commitment and support for project.	<p>Initial political support should be formally confirmed.</p> <p>Ongoing political support should be closely monitored.</p> <p>Relevant politicians should be briefed as to progress and involved in milestone events.</p> <p>Highlight consequences of nil private sector involvement.</p> <p>Incorporate in stakeholder management plan.</p>
NATURAL DISASTER		
Natural Disaster	Unforeseen major event occurs.	<p>Force majeure provisions should exist in concession agreement.</p> <p>Partnering principles in concession agreement.</p> <p>Insurance should be in place.</p> <p>Mechanism in concession agreement should exist to allow for review of tariff and general conditions if major change in operating environment.</p>

- 10.6 Once projects are considered commercially viable, the impediments or constraints to regional infrastructure development tend to fall into distinct identifiable categories, as presented below.

Communication

- 10.7 By the very nature of its size and diversity the State of Western Australia is unique . It is reasonable, therefore, to expect that the problems experienced by proponents of regional infrastructure in the State are also unique.
- 10.8 One of the major issues that became apparent during the course of the study was the issue of communication. That is, the communication links between the financiers and the proponents of infrastructure developments.
- 10.9 With the capital markets situated on the East coast of Australia (headquartered in Sydney and Melbourne) there are significant barriers to effective communication channels with the regional areas in Western Australia.
- 10.10 Financiers indicated that the projects in regional Western Australia were not being adequately communicated to the funding markets. Whilst there is a significant level of capital potentially available for investment in regional infrastructure (particularly Western Australian regional infrastructure due to the interest in the resource sector) there are insufficient means to bring the two sides together.
- 10.11 One of the factors contributing to this impediment is that whilst most of the large institutions have branches in Western Australia, these are situated in Perth and are not structured to meet the needs of credit proposals for regional infrastructure projects.
- 10.12 Perth does not have the necessary resources dedicated to assessing infrastructure credit proposals and certainly not identifying potential infrastructure projects for investment by the institution. Limited formal lines of communication exist within most institutions for bringing projects to the attention of the decision makers in the head office.
- 10.13 Projects must be brought to the attention of the institutions themselves at the head office level (Sydney or Melbourne) and any assessment will be performed at those locations.
- 10.14 Many proposals simply do not get to the right people, and the funding markets are unaware that they exist.

Knowledge / understanding

- 10.15 Another factor associated with communication is because the capital markets are in the Eastern States, decision makers have little knowledge of Western Australia, its geography or the potential projects and developments. This leads to an inherent reluctance to invest time in looking for opportunities when such time may not be able to be recovered.
- 10.16 The corollary is that as well as being geographically distant from the capital markets many proponents of infrastructure developments in regional areas were conceptually distant. The perception of funding markets is that there is little understanding in regional areas of what a financier is looking for in a project.
- 10.17 It was stated that often the proponents in regional areas confuse economic rates of return with market rates of return.
- 10.18 This was reflected in proposals that individually provide a high economic rate of return, but do not provide a market rate of return upon which a financier can base its cash flow projections.
- 10.19 The problem is heightened because often the form of infrastructure proposed in regional areas is the same form that has traditionally been provided by the government at less than market cost. Thus, when it comes to seeking private sector involvement the cash flows simply do not support the financing required.
- 10.20 In addition, the trend with many remote regional areas of Western Australia is to have the employees “fly in / fly out”. This means that there is less demand for many forms of infrastructure, particularly social infrastructure such as schools, police stations, hospitals etc.

Guidelines

- 10.21 Institutions involved in providing capital to infrastructure developments, whether in the form of debt or equity, consider the formal guidelines provided by the States are either not clear enough and result in projects being obstructed, or simply are not being followed by State governments and their agencies.
- 10.22 A number of the institutions interviewed for the study gave the example of many of the existing guidelines not being followed (NB. It is understood that no formal guidelines of this nature currently exist in Western Australia but they are in the process of being developed and will be issued by the end of 1996).
- 10.23 In the majority of cases guidelines, whilst setting out that privately financed infrastructure will be subject to a competitive bidding process, also provide that in exceptional circumstances direct negotiations will be considered by government.
- 10.24 The “exceptional” situations generally relate to proposals where the private sector

proponent is able to demonstrate that they hold intellectual property in relation to the proposal.

- 10.25 It was indicated by financiers that such “exceptional” circumstances are rarely, if ever, allowed under the guidelines.
- 10.26 The need is to ensure that the guidelines currently being considered by the Western Australian Government include the mechanism for allowing direct negotiation with project proponents, and this mechanism is actively enforced when appropriate.

Size

- 10.27 The size of the projects available in regional Western Australia is an issue because it was clear from meeting with the financial institutions and reviewing the infrastructure projects that they have previously financed, that the size of many of the projects in regional areas are well below a level at which they wish to be involved.
- 10.28 The “transaction barriers” are therefore a major cause of concern. In many cases regional infrastructure projects in Western Australia are in the smaller end of the market (\$5 million to \$20 million range).
- 10.29 The costs associated with overcoming probity, tendering, legal and feasibility barriers can be as high as \$500k to \$1 million. Many of these costs are fixed up-front costs that will not vary with the size of the project and as such mean that the rates of return on smaller projects are simply not attractive when compared to projects involving hundreds of millions of dollars.
- 10.30 During 1995 the Economic Planning Advisory Commission (“EPAC”) published reports on private sector involvement in public infrastructure. One of the conclusions reached in the reports was the fact that should the tendering processes used by government impose an unreasonable burden on proponents, then private sector interest in infrastructure projects may be impeded.
- 10.31 An example of how transaction barriers can operate to obstruct a project was provided by a large non-banking financial institution interviewed as part of the study. The case cited was that of a proposed project in South Australia. The project appeared sound but the proponent needed \$50k to have a feasibility study prepared. The financial institution was willing to accept the cost of the study in return for becoming the preferred tenderer. The government would not agree to this and as such the project has been shelved. The financial institution was not willing to spend the transaction cost without some form of guarantee that there would be returns down the line once the project was further evaluated.

Planning and legislative

- 10.32 Planning and legislative hurdles that a project must overcome are also significant. Considerations that fall into this category are many and varied and may not be applicable to all projects.
- 10.33 If Crown land is to be made available for the development, it may need to be converted into a Crown Reserve, or be subdivided from a Crown Reserve. This is normally accomplished through a Reserve Act or Reserve and Land Revestment Act, of which there are several presented to each session of Parliament. Actions of this nature can take a significant amount of time before they are finalised.
- 10.34 The zoning of the land on which the project is planned to be built is also an important consideration. Infrastructure such as power stations, sewerage treatment works or refuse disposal sites would be reserved for the purpose under a town's planning scheme. If the planned project does not have this zoning allocated, and the land is zoned for another use, the scheme will need to be amended (town planning schemes have the power of an Act of Parliament). Amending a town planning scheme can also take a significant amount of time.
- 10.35 Similar considerations would apply to statutory regional scheme. Currently there is only one such scheme in Western Australia but one is currently being finalised for the Peel Region, and plans are in place for a Geraldton Region Scheme and a Greater Bunbury Region Scheme within the next year.
- 10.36 Under the recently amended town planning and environmental legislation, all town planning schemes and scheme amendments must be referred to the Environmental Protection Authority ("EPA") for a decision on whether they need formal assessment. If formal assessment is needed, the EPA will determine the level of assessment. The EPA sets the criteria for assessment, and the proponent appoints a consultant to undertake it. Apart from the time taken to do the assessment, the EPA and the Minister for the Environment need to approve it.
- 10.37 The assessment can be one of three levels, it can be a Consultative Environmental Review, which would take approximately 27 weeks to approve once submitted, a Public Environmental Review, which would take approximately 57 weeks, or an Environmental Review and Management Plan, which would take 69 weeks.
- 10.38 All development proposals need to be referred to the EPA for the determination of the level of assessment that will be required and the process followed is the same as for the town planning scheme and scheme amendments.
- 10.39 The Aboriginal Heritage Act makes it an offence to alter in any way an aboriginal site without the authorisation of the Aboriginal Cultural Materials Committee. The time taken to clear a site for development will depend on where the site is located in the State, however more remote sites will generally take longer to receive clearance.

10.40 The issue of Native Title and how it will affect a particular project is also an important consideration. In many cases more remote locations in Western Australia can be subject to numerous claims and how such claims will be resolved will depend on the nature of each claim and the nature of the project is located.

A regional example of impediments to infrastructure

10.41 An example of regional infrastructure that is being delayed due to a number of reasons is a case in the Gascoyne region of Western Australia.

10.42 Clough Engineering Limited (“Clough”), through its subsidiary Carrarang Station Pty Ltd holds the pastoral lease over Carrarang Station and has a 35% interest in the Shark Bay Salt Joint Venture which holds a mining lease within the pastoral lease. The mining lease covers the Joint Venture’s solar salt production facilities centred on Useless Loop, a private townsite established in 1963.

10.43 Useless Loop is linked to the sealed Denham Hamelin Road via a 130 km gravel road which also services a number of station properties along the way. The popular tourist and fishing area at Steep Point (the western most point of mainland Australia) is located 30km west of the Mining lease and can only be accessed via 50 Km of rough 4WD track.

10.44 Under the Shark Bay Salt Joint Venture Agreement (1983) the State Government agreed to maintain the 130 km Useless Loop Road. The agreement reflected the fact that the State receives revenue via royalties, payroll tax etc from the Joint Venture’s business activities.

10.45 Despite the above agreement Clough is of the view that the State Government has not maintained the road to a satisfactory standard. The validity of this argument was recently demonstrated when the Joint Venture took the unusual step of assuming responsibility for the part realignment and maintenance of 43km of the Useless Loop Road.

10.46 Having assumed responsibility for portion of the road Clough is arguing that the State should replace that public infrastructure by formalising the 4WD track out to Steep Point. To facilitate the above, Clough is proposing to construct the Steep Point road at cost in return for concessions in relation to payroll and other taxes. Currently \$450,000pa.

10.47 Clough believes that the Steep Point Road will provide the State with a number of ongoing benefits and boost the development of the region’s expanding tourism industry. The company plans to take advantage of the existing tourism activity at Steep Point by developing a low key tourism destination at a location identified by the Shark Bay Regional Plan as being suitable for that purpose.

10.48 Construction of the Steep Point Road has been identified by Main Road Western Australia under its 2020 Regional Roads Development Strategy. Under normal

circumstances responsibility for the maintenance of local roads rests with the local authority, in this case the Shire of Shark Bay. The Shire, with its very limited rate base, may be reluctant to assume on going responsibility for a road which provides limited benefit for the majority of its ratepayers.

- 10.49 Given the above, Clough is concerned that on going maintenance of the public section of the Useless Loop Road will remain a problem and that its extension out to Steep Point will not be realised unless the Government provides some form of concession to enable the company to effectively replace and maintain the equivalent to the length of public road for which it has recently assumed responsibility.

11 Devise and recommend options or mechanisms for improving accessibility to finance for regional private and public sector infrastructure proposals in Western Australia

- 11.1 Many of the people and institutions that we met during this study had their own ideas on ways and means of improving the access to finance of regional infrastructure developments.
- 11.2 The task has been to consider the issues, identify the options and suggestions that will provide the most benefit and recommend those most likely to succeed.
- 11.3 The proposed options have been set out separately below.

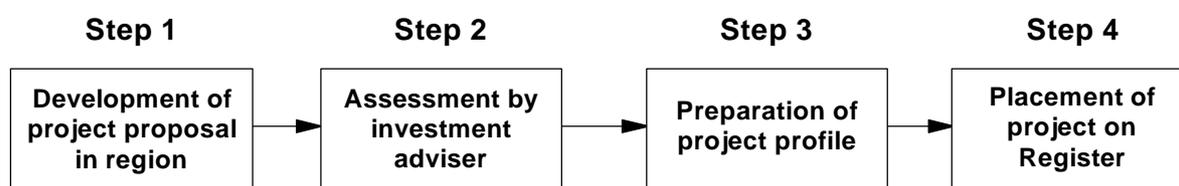
Option 1 : Western Australian Regional Infrastructure Register

- 11.4 One way of bringing the regional Western Australian infrastructure projects to the attention of the capital markets and overcoming the communication and other funding sources is the use of a register that lists projects that have already been feasibility tested and are seeking finance.
- 11.5 A recent project embarked upon at a Commonwealth level was the Institutional Investor Information Service (“IIS”).
- 11.6 The IIS is intended to improve the interface between the major institutional investors and project proponents in regional Australia. Its fundamental aim is to overcome the “information gap” that exists between these two groups.
- 11.7 The IIS is to:
- involve a National Register of “Investor Ready Projects” to provide a direct information conduit between project proponents and institution investors. The register is to be available on the Internet and in hard copy form;
 - provide information to project proponents (regional development organisations, local councils, public authorities, industry groups, developers and entrepreneurs) explaining how it works and what it requires in terms of project presentation, documentation etc.; and
 - provide information to key decision-makers within the institutional investor market (eg. fund managers, advisers, trustees, consultant actuaries) and the banking industry about the benefits of holding a more diversified investment portfolio and the investment opportunities that exist at a regional level.

- 11.8 Currently the main source of advertising of projects in regional Western Australia is through the quarterly Western Australian PROSPECT magazine published by the Department of Resources and Development.
- 11.9 Our review of the Economic Perspective brochure for the Gascoyne region indicated that it also included a section on committed projects and projects under consideration for the region.
- 11.10 It is our suggestion that a similar scheme be instigated in the State of Western Australia, through either the Department of Commerce and Trade, or the Department of Resources Development and used solely as a means of advertising Western Australian infrastructure projects. This scheme could also be used as a feeder to the national scheme to ensure appropriate representation of Western Australian projects.
- 11.11 The Government could also consider outsourcing the operation of the Register.

How Would the Scheme Work?

Summary of Steps



- 11.12 The mechanisms that will be used by the National IIIS Scheme as documented have been adapted below to suit our proposal for it to be adopted in Western Australia.
- 11.13 Basically the scheme would provide a step by step process for Western Australian regional projects to follow which is summarised in the chart below:

Step 1 - Project Proposal

- 11.14 The initial stage is the development of a project proposal. This should provide a clear and succinct description of the project, including its aims, location and likely size and cost, and contain supporting information such as a feasibility study, cost benefit analysis, business/operational plan etc..

11.15 The project proposal would be the means by which the Regional Development Commission (“RDC”) in a particular region would elicit early interest in a proponent’s project. The RDC may also be able to canvass possible Government attitudes to the project. Treasury could also be involved in the process of identifying and proposing projects.

Step 2 - Investment Adviser

11.16 Once the project has received general endorsement from the RDC, it would be forwarded to the Department of Commerce and Trade (or Resources Development) for selection of an investment adviser of the project proponent’s choice.

11.17 The role of the investment adviser will be to assess the project for its potential to attract commercial finance. The adviser would also check that the information supplied is sufficient for a potential investor to make an informed decision about the project, and that the assumptions and projections underlying the project’s viability are reasonable.

11.18 The requirement to engage an adviser in order for a project to be placed on the Register is to ensure that the financial markets have the necessary confidence to seek out projects on the Register - its long term viability will depend on it including only properly assessed and documented projects.

11.19 Institutional investors, in particular, need to be highly confident of the credentials of the adviser. As part of its role in administering the Register, the Department of Commerce and Trade would maintain a list of accredited advisers that project proponents could engage.

11.20 Projects would only be placed on the Register after approval by an investment adviser. Reimbursement of a portion of the cost of the investment adviser’s fee could be considered by the Commonwealth Government.

Step 3 - Project Profile

11.21 Once the project proposal and supporting documentation is assessed by the investment adviser and considered to be “investor ready” it will be necessary for a project profile to be prepared by the proponent for placement on the Register.

11.22 The profile would consist of a two-page proforma and contain essential (but non confidential) material such as description of the project, its location, the estimated cost, timeframes for funding, expected revenue streams, risk factors, and contact details.

11.23 The format proposed is set out below:

PROJECT FILE

Name of Project

Proponent(s):

Description (3-4 lines):

Estimated cost of the project:

Location:

Time frames for approvals/funding:

Nature and level of stakeholder support:

Expected revenue stream (on a yearly basis) and sources of revenue:

Projected life of asset and recovery value:

Risk factors, including details of risk sharing commitments by parties:

Eligibility for government assistance or tax concessions (such as Develop Australia Bonds)?

Details of any similar projects seeking investor support:

Proposed means of approval and location:

For further details please contact:

Name:

Address:

Phone/Facsimile:

E-Mail address:

Step 4 - Register

- 11.24 The final step would be to forward the project profile to the Department of Commerce and Trade for placement on the Register. The department would be responsible for maintaining the Register, as well as promoting its existence and use within the investment community. A flat fee could be charged by the department for the service.
- 11.25 The existence of the Register would be advertised widely among the Australian and overseas investment communities. Since the Register would also be promulgated via the Internet, investors from both Australia and overseas would have ready access to the details of projects as outlined in the project profiles. It is anticipated that individual project profiles would remain on the Register for a period of up to 12 months.

Which Investors Would Get to Examine the Project?

- 11.26 From the interest exhibited in the National IIS scheme and the institutions involved in its development, a general guide to the institutions that will be viewing the proposed WA Register is:
- insurance companies such as AMP and National Mutual, superannuation funds and life offices;
 - banks such as Citibank, UBS, Macquarie Bank, Dresdner, CBA, ANZ, NAB, Westpac etc.; and
 - industry participants, private electricity companies, telecommunications companies etc., including various overseas interests.

Option 2 : Workable Policy Guidelines

- 11.27 Many of the infrastructure projects in Western Australia that have been developed by the private sector or through some form of public-private sector partnership have been carried out in the absence of a fully developed policy framework.
- 11.28 Experience in other States of Australia suggests that there is a need to provide guidance to both the public and the private sectors. It is understood that guidelines are in the process of being prepared, however the recommendations in this section should be considered.

“Recommendations for Guidelines for Private Sector Involvement in the Provision of Infrastructure”

- 11.29 The guidelines should clearly state the Government’s commitment to seeking the involvement of the private sector in the delivery of infrastructure, both in regional and urban areas.

- 11.30 The guidelines should state which forms of public-private partnership are acceptable and provide examples.
- 11.31 Given the number of risks associated with infrastructure projects, and the need for there to be a sharing or allocation of risk between the public and the private sectors, the guidelines should state which risks the government is prepared to accept.
- 11.32 The guidelines should also set out the Government's views on the general issues with respect to the way in which a project is financed, such as the use of shadow tolls, guarantees, State Government loans, take or pay agreements, grants and revenue bonds.
- 11.33 One of the main concerns of the private sector is the issue of probity and the tendering process. Where an entity in the private sector proposes an idea to the Government there should be an avenue to ensure that any intellectual property is protected. That is, that upon receiving a submission the Government does not immediately proceed to advertise for bids.
- 11.34 The guidelines should set out the situations in which the Government will consider negotiating directly with a private sector entity, rather than asking for bids. This would generally only occur when the Government had been approached by a private sector entity.
- 11.35 The guidelines should also state the Government's policy on the provision of information both during and outside a tendering process. The policy should set out what information the government is willing to provide to the private sector, how it will be presented and within what time frame.
- 11.36 In general the guidelines should provide both the private sector and the public sector with a clear set of instructions as to how the interaction between the two sectors is to occur. This will necessarily involve setting out how the assessment and approval process will operate.

Option 3 : Regional Training

- 11.37 Criticism is often levelled by both the public sector and the private sector that each do not have the necessary training or experience to make private sector involvement in infrastructure workable.
- 11.38 A means of addressing this issue is the use of regional seminars or workshops that could be attended by proponents, the public sector participants (including local council and shire representatives) and the private sector investment community.

11.39 The objectives of the workshops would be varied but would include:

- to provide information to project proponents about how the institutional investor market works;
- what is required by investors in terms of project presentation and supporting documentation;
- to communicate the Government's views on the involvement of the private sector (through the use of the documented guidelines as suggested earlier);
- to inform the capital markets as to what projects are out there in the regions (this would be supplemented by the tours also suggested);
- provide practical advice and "hands on" experience to participants;
- communicate the forms of Commonwealth, State and Local Government assistance that are available for projects in the regions; and
- collect feedback to the Government as to how the process is working and seek suggestions as to how it could be further improved.

11.40 These workshops could be organised and run by the Regional Development Commissions as part of their current programs to develop the regions.

11.41 The costs of such workshops could be met from the budgets of the Development Commissions (and also from funds generated from the operation of the Register suggested earlier, should this suggestion be taken on).

Option 4 : Regional Infrastructure Development Fund

11.42 It is suggested that the Western Australian Government look into the possibility of establishing a Regional Infrastructure Development Fund.

11.43 The concept of such a fund is one that has been used in the United States, both at a State and Federal level. Several models for funds of this nature exist in the United States, and an example has been included in this suggestion to show how the concept could be adapted to a Western Australian context focussing on infrastructure development.

11.44 The Colorado Housing and Finance Authority ("CHFA") is a self-sufficient, quasi-governmental, public enterprise with a dual role of housing and economic development. It is a corporate body with its powers derived from the *Colorado Housing and Finance Authority Act*

- 11.45 The CHFA was established in 1973 with the initial mandate of assisting private enterprise and government entities in the provision of housing. Subsequent amendments to the Act have eliminated restrictions on the amount and area of financing with the powers of the fund now being to “ *raise and invest funds to finance economic development*”.
- 11.46 The CHFA raises the necessary funds through the sale of long term State bonds and notes. These bonds can be either taxable or tax exempt and have fixed coupon rates. Strict guidelines exist for the eligibility of borrowers to access the funds.
- 11.47 The physical process of assessing loan applications against the criteria and the subsequent disbursement of funds is performed by private lending institutions. The funds are lent at fixed rates and can have terms of up to 25 years. These lending institutions receive a management fee, usually quoted as an additional margin on the fixed interest rate of the funds lent.
- 11.48 The lending institutions also have the capacity to bundle the loans together and on-sell them as a securitised package to institutional fund managers.
- 11.49 It is recommended that the Western Australian Government investigate the possibility of establishing a Western Australian Regional Infrastructure Development Fund.
- 11.50 Using the example of the CHFA as a guide for the purposes of this recommendation, the fund could be set up as an incorporated entity with State Government backing.
- 11.51 The fund could issue bonds into the marketplace that satisfy the criteria for being certified under the Development Allowance Authority Act 1992, thereby accessing the benefit of the tax concession.
- 11.52 These funds could then be used to invest in a wide range of projects in the regions of Western Australia with significant involvement from the Local Government authorities and Regional Development Commissions.
- 11.53 Investment could be by way of debt or equity and the projects could be both private and public and have varying risk profiles and rates of return.
- 11.54 As with the CHFA, the role of the Government would decrease over time as the fund became self sufficient.
- 11.55 This would be a new and innovative way of accessing the private sector capital markets that also utilised the rating of the Government bonds to support investment.
- 11.56 With a wide range of projects (supported by, potentially, the Register that would also be maintained by the Government) the diversified risk would be attractive to investors.

- 11.57 With bonds as the funding source the term of loans could be extended beyond the 10 to 15 year terms offered by banks and other traditional funding sources, which would better match the time frames of the projects themselves.
- 11.58 The Government could also consider using professional fund managers or financial institutions to manage the fund, with the fees being tied to the funds lent and performance of the fund (ie. in the same manner as the fees charged under the CHFA scheme).

Option 5 : Bundling of projects

- 11.59 The existing structure of the Regional Development Commissions operating in each of the nine regions of Western Australia provides the State Government, through the Department of Commerce and Trade, with a direct link to the needs and people of the regions with respect to infrastructure.
- 11.60 The Department of Resource s Development also reviews the infrastructure needs of the State as a whole and currently includes a summary of the major committed and under consideration projects related to resource development in its quarterly publication, “Prospect”.
- 11.61 Using these two sources the State Government should consider the possibility of taking the step of bundling particular projects together, whether by region or by project type, to provide more attractive investment opportunities to the funding markets.
- 11.62 This process could be supported by the use of the register suggested under Option 1 and the training under Option 3.

Option 6 : Investor tours

- 11.63 The distance between the funding markets located on the East Coast and the infrastructure projects in regional Western Australia is evident.
- 11.64 That there are incomplete or inefficient communication pathways between these two areas is also clear.
- 11.65 One way that the State Government could consider to improve the transfers between these two groups is the use of guided tours of the region for the major funding providers.

- 11.66 These could be established as a regular occurrence and organised by the Regional Development Commissions. It is considered that the costs would be met by the funding institutions themselves as they would be obtaining valuable information in relation to possible investment opportunities.
- 11.67 These tours could be of proposed sites and incorporate meetings with the proponents and presentations of the project proposals. They could also be linked to the training suggested under Option 2 with the funding representatives giving presentations.

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