

# *Local Government New Zealand 2014 Conference*

Funding for Local  
Government Infrastructure  
July 2014



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# *Public infrastructure*

## Typical Features

- Large up-front expenditure
- Long-lived assets
  - Benefits delivered over time (and often over generations).
- Operating expenditure may be low relative to capital expenditure
- Lifecycle asset replacement: lumpy



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# *The funding challenge*

- Significant up-front expenditure cannot be funded by “pay-go” (i.e. from current revenue)
- Spread the financing burden over time:
  - Pragmatic
  - Equitable: match benefits and costs
    - Paid over time by those receiving the benefits
    - Reduces the impact on current rate payers



# *Spreading the financing burden*

- Borrowing
  - Widely used
  - Local government has considerable borrowing capacity
- Alternative procurement

BOOT	Ownership	Design	Build	Operate	Finance
DBFO	Ownership	Design	Build	Operate	Finance
DBO	Ownership	Design	Build	Operate	Finance
D&B	Ownership	Design	Build	Operate	Finance
B&O	Ownership	Design	Build	Operate	Finance
All public	Ownership	Design	Build	Operate	Finance
<b>Key: Private; Public</b>					

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# *Alternative procurement*

- Core concepts
  - Private sector builds and finances the infrastructure and operates/delivers services
  - Public sector passes a range of risks to the private sector that it would otherwise be responsible for
  - Private sector receives a payment for delivery services
    - From the public sector agency and/or
    - From the users for services delivered
  - Asset handed back to public sector at end of contract period

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# *Alternative procurement issues*

- Size and scale
- Complexity
- Incentivising performance
- Long term contracts
- Demand risk
- Certainty of revenue
- Cost of finance



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# *Alternative procurement doesn't of itself solve the funding challenge*

- Alternative procurement :
  - Can spread the cost over time and generate efficiencies
  - But creates a fixed charge
  - Requires a source of income to service the financing over time

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