

# Tax Facts

A knowledge-based series by the  
Tax and Transfer Policy Institute

## What Is Alternative Financing?

Usually, governments fund policies by paying for them directly with cash (sometimes known as 'direct funding'). Alternative financing refers to situations where governments fund policies or projects using alternatives. Under direct funding, such as a grant or most social welfare payments, the government does not expect to be repaid. Under alternative financing, the government often provides financial resources to another entity, like a corporation or individual, in return for a financial asset.

In recent years, the Australian Government has increased its use of alternative financing. But how is alternative financing used? How has its use changed over time? And what are the impacts on the budget?

### How is alternative financing used?

The most commonly used forms of alternative financing include:

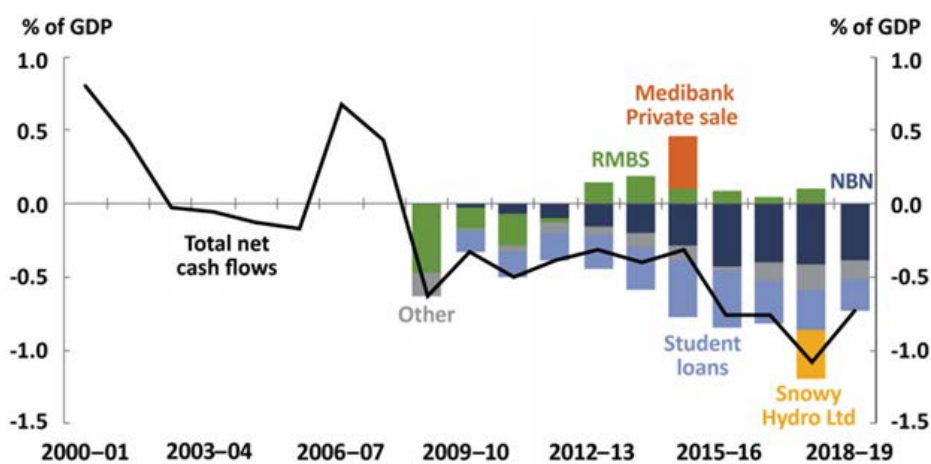
- purchasing an ownership stake in a company through an equity injection — this can support projects that are large or where the risk profile makes private sector investment unlikely. Governments will generally take into account the broader social or public benefits. An example is the Australian Government's 100 per cent ownership of NBN Co [\[1\]](#).
- lending money to businesses and individuals — for example in cases where borrowers may not be able to access private financing. Sometimes loans are made with more favourable terms than would be offered commercially. The largest example is loans to students to assist with tuition costs under the Higher Education Loan Program (HELP), with \$7.1 billion of new loans in 2018–19 [\[2\]](#).
- providing a guarantee so the government assumes the debt or performance obligation if certain events occur — this allows the government to lower risks associated with certain activities for individuals, businesses and other institutions. The First Home Loan Deposit Scheme offered by the Australian Government is one example [\[3\]](#).

There can be sound policy reasons for using alternative financing arrangements to fund particular government policies. For example, HELP loans have been found to be effective in sharing the costs of higher education [\[4\]](#), and equity investments may be used when a project is too large or risky for private investors. But unlike policies that are directly funded, such as income support payments like the Age Pension, policies that use alternative financing are more likely to have substantial revaluations associated with them. For example, a company owned by the government may change in value, expectations around loan repayments may change, or financial obligations associated with guarantees may be adjusted.

## How has alternative financing changed over time?

In recent years, there has been a trend toward using more alternative financing arrangements in some areas of Australian Government spending such as transport, energy, telecommunications and education. For example, the share of transport infrastructure using alternative financing is expected to increase from a historical average of 5 per cent between 2007–08 and 2016–17 to an estimated average of 20 per cent between 2017–18 and 2022–23 [5]. This trend may continue — for example, the Australian Government’s response to the COVID-19 pandemic includes the use of alternative financing through a guarantee supporting up to \$40 billion of lending to small and medium enterprises [6].

**Figure 1. Net cash flows from investments in financial assets for policy purposes**



**Source:** [Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees](#), Parliamentary Budget Office Report no. 01/2020, March 2020, Commonwealth of Australia.

The overall increase in use of alternative financing can be seen in the Australian Government’s ‘net cash flow from investments in financial assets for policy purposes’ at Figure 1, which has been negative since 2008–09 [5]. This means that more cash has flowed out from government to other entities, in the form of new investments or loans, than cash has flowed in from proceeds from investments sold or loan repayments. Major contributors to higher cash outflows in recent years include equity injections and loans to NBN Co, more concessional loans issued for higher education, and the one-off investment in Snowy Hydro Ltd in 2017–18.

## What are the budget impacts of alternative financing?

Recent experience has shown that alternative financing arrangements can have a significant impact on the fiscal position through revaluation-related costs. While detail is provided in budget documents about most government spending and taxation, very limited information is provided about revaluation-related impacts. Under international accounting standards and the Australian Bureau of Statistics’ Government Finance Statistics Framework, the impacts of these revaluations are not included in the commonly cited indicators of budget balance — the fiscal balance or underlying cash balance — but are included in the government’s net financial worth. For example, the fair value estimate of NBN Co as at 30 June 2019 was \$8.7 billion, representing an overall downward revaluation of \$20.8 billion [7]. This change does not affect the underlying cash balance or fiscal balance, but lowers the net financial worth. For this reason, indicators such as net financial worth should be considered alongside the fiscal balance or underlying cash balance to get a broader picture of the fiscal position.

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- [1] NBN Co. Annual Report 2018, National Broadband Network Corporation, Melbourne
- [2] Department of Education Annual Report 2018–19, Commonwealth of Australia, Canberra.
- [3] First Home Loan Deposit Scheme (FHLDS), National Housing Finance and Investment Corporation, Commonwealth of Australia, Canberra.
- [4] See Productivity Commission 2017, University Education, Shifting the Dial: 5 year productivity review, Supporting Paper 7: University Education, Commonwealth of Australia, Canberra.
- [5] See Parliamentary Budget Office 2020, Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees, Report no. 01/2020, Commonwealth of Australia, Canberra
- [6] Coronavirus SME Guarantee Scheme – supporting the flow of credit, Australian Treasury, Commonwealth of Australia, Canberra. Available at: <https://treasury.gov.au/coronavirus/sme-guarantee-scheme>.
- [7] Department of Communications and the Arts Annual Report 2018–19, Commonwealth of Australia, Canberra.

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