SINE IACTURA Pty Limited
1202/2 Quay Street Sydney 2000
ABN 79 139 153 692

Ms Melissa Edwards
Public Infrastructure Inquiry
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne Vic 8003

Dear Ms Edwards

PUBLIC INQUIRY INTO COSTS, COMPETITIVENESS AND PRODUCTIVITY IN THE PROVISION OF NATIONALLY SIGNIFICANT ECONOMIC INFRASTRUCTURE

Thanks for the opportunity to have my say among the many competing views on what needs fixing in Australia today to supply usually, but not always, public infrastructure assets that are not productive in themselves, but without which economic enterprises are handicapped.

The high cost and long lead times noted by the Commission are just par for the course for large scale public infrastructure asset creation. The investments are large, often complex projects and attempts to speed them up and cut their costs are often nugatory, leaving a bitter taste in the mouths of almost all politicians involved – and it is politicians that ultimately decide which investment projects proceed.

Neglecting to plan comprehensively and meticulously for the construction of large scale public assets and a rush to commit and announce a start commonly transfers the "saved" time and effort of planning to the realm of the implementing project manager – a problem solver who normally charges by the hour and whose recommendations may increase the final cost many times over [1].

Why are we surprised such projects :

- take longer than initially announced;
- have escalating costs as we fix one problem, while we create others; and
- ultimately, don't play the role we expected of them at the outset ?

Most of the faults in the system, identified in the Commission's Draft Report, are things we do ourselves.

[1] The Melbourne Underground Rail Loop, for example was initially estimated at $80m (in 1968$) but by its completion in 1982 the actual cost had increased 10 fold to $800m – far greater than could be explained just by inflation over its lengthy construction period.

For example, the barriers to private sector financing are illusory. They are made much of by investment agents for those with savings to invest[2] , while the funding of the repayment of the requisite financing (public or privately raised) often just involves the reshuffling of claimants to have their money repaid sooner, on time or with a greater delay.

Effective mechanisms and operating principles are already written down in the current National PPP Guidelines, beaten out of the earlier engagement guidelines of State jurisdictions who developed their rules and practices through bitter experience. At their current length and complexity such documentation **cannot** overcome the oft mentioned "barriers" or in themselves reduce construction costs, though having no guidelines would make matters worse.

Truly, only the slow, relentlessly advancing technical frontier and rare instances of genuine competitive bidding may make a contribution, though it would always be small in size compared to the waste from unevaluated or poorly planned projects, irrespective of the method of temporary financing.

The minimum cost is what it is. It can be even higher if the project is poorly planned or insufficiently developed (through premature announcement by impatient politicians or the enthusiasm or, worse, the greed of the proponents of an unsolicited proposal) or if badly executed (poor management and the absence of the early input of an industrial economist using the methods of cost benefit analysis[3] for its appraisal as worthwhile).

To be of value, all experience should be summarised and to this letter is attached a short paper presented to the Australasian Transport Research Forum in Perth in 2012. The document summarises what I had noticed in a lifetime working in a number of Australian jurisdictions[4] advising governments on investment in large scale public infrastructure asset creation (what would have been termed "national development", a lifetime ago).

In the early 2000s when privately financed public asset creation was the vogue, Australian governments were routinely exhorted to publish "pipelines" [5] of projects for which constructors, financiers and operators could prepare.

[2] I'm ignoring for the moment the debt powered investor who is rather more of a speculative trader, relying on interest and risk spreads in lieu of actual savings.

[3] As recommended as far back as 1966 by The Treasury in its Supplement to the Treasury Information Bulletin: Investment Analysis July 1966, its official response after the release of the Vernon Report of the Committee of Economic Enquiry, 1965.

[4] Victorian Ministry of Transport and Treasury, NSW Treasury and after retirement in 2010, the Western Australian Treasury with sabbatical assignments before retirement as an advisor to China's State Planning Development Commission on privately financed project feasibility in 2002 and for 9 months in Peking for the Ministry of Finance in 2004 and 2005 on improving government budget supervision.

[5] The title of the original attachment is not formatted wrongly – it was a rather ponderous attempt at humour.

Pipelines (not just for private financing opportunities) are still sought (not just for transport infrastructure) by a variety of interests. The attachment to this submission discusses a number of topics including :

- the difficulties of publishing a pipeline of potential **transport** BOOT/PFP projects, attractive to both government and the private sector; and
- the relation of economic appraisal to comprehensive asset creation planning.

Significantly for the Inquiry, it also reports on an analysis of thirty BOOT/PFP projects undertaken in New South Wales over a pioneering twenty year period from the late 1980s, of which by far the largest group (about half) were tollways or public transport infrastructure, assessing the success of the projects from **both** the private and the public sector points of view, for hints that might identify the best prospects in future.

In the attached paper, the reliability of the bases for and the net advantages of publishing project pipelines is questioned, and the post 2008 impact of the world financial collapse is briefly discussed. Finally, flowing from the analysis of this experience to date, policy prescriptions for government analysts and advisors everywhere were suggested. I reached two provisional conclusions.

My first conclusion was that it is not generally practical to publish a "pipeline" of potential BOOT/PFP projects separately from a major government works plan - any BOOT/PFP pipeline should always be a subset of the whole, comprehensively evaluated government works program. And, it should be economically rewarding overall, however financed.

Second, the projects to be offered for private financing and ownership should also have a comprehensively evaluated **public finance** "fall back" version which means initial project planning should be very advanced before any government announcement so that at least government negotiators could rise from the bargaining table, if only an inferior bargain could be struck with the preferred proponent at the eleventh hour.

The recent tentative findings of the concurrently running "Commission of Audit" into Commonwealth government funding problems and budgets (and "leaked" out just this week) indicate huge reductions in future government funding are to be expected – so only the very best infrastructure proposals can be entertained. The reasons for this sort of backgrounding is of course in response to fears of worsening international economic circumstances and an unsustainable Australian fiscal situation being realised.

Finally, if a "warning word" on closing were needed, the big picture macroeconomists' (as distinct from the industrial economists') prescription of making up for falling growth rates in the **consumption** sector[6] and the relatively smaller but plunging **trade** sector, with "shovel

[6] Using the now familiar idea of there being three **final** markets in our national economy – consumption, capital and trade (uneven in size and in rates of change over time) and each of which

ready" **capital** expenditures must be sceptically evaluated[7] by the Inquiry lest wasteful, large public expenditures are mistaken for economic benefits in the popular mind.

I don't expect to be able to attend every public information session or hearing but you can contact me for clarification of what I have said, if necessary. I am happy to dilate on any of the issues that the Commission or that I have raised without charge (but with the hope of assisting the Commission if I can, and coincidentally raising the reputation and level of recognition at large of my small consultancy company, Sine Iactura, in this important field).

Thanks for the invitation to participate, good luck with your investigations, and

Keep Well

Pete Bannister
Managing Director
Sydney
4 April 2014

therefore having only limited capacity to compensate for a sudden deterioration in the level of effective demand in either of the other two.

[7] Along the lines of the Handbook of Cost Benefit Analysis, Department of Finance and Administration 2004 AGPS, Canberra