

# The Future of Funding Public Infrastructure

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As a member of the federal government's 'summit on the future' we were encouraged to provide ideas and new ways of thinking about the problems of the future. Many of us have discussed the fact that we are feeling a little bit of a hangover from that and we want to re-engage in those sorts of ideas. In that spirit I come to you today to provide, perhaps, a different way of thinking about the future of funding public infrastructure. I decided that rather than give you a bit of an overview and a framework, I would give you a proposal and then ask you to shoot holes in it and think about how potentially you could improve it and think it through.

It seems every time you open up a newspaper, every time you listen to the radio, there is some critique about infrastructure: that we have not done enough or we have done too much, there is overdevelopment or there is underdevelopment, we have too high a public debt level or we have not invested enough. How do we find the balance? What is the issue here? Is it an issue of availability of funds? Is it an issue of actually deciding on the quality of the project and who does it? What are we trying to figure out here?

Given that we are speaking in Sydney and we are just down the road from the Sydney Opera House, I would like you to cast your mind back to the building of the Sydney Opera House. We, of course, look at it and we think of it as a great feat of public infrastructure, one of our national icons — it is very dear to the hearts of many of us here. But think about the poor old Minister of Public Works at the time when he was pilloried in Parliament. This was an abject failure in terms of project development; it was over budget and over time. There was a breakdown in communication between the architect and builder. There were all sorts of things went wrong, to the extent that we would count this as an absolute failure of public infrastructure and public investment. The reality is that we look at it now and we love the thing. Then again, there are those who say, 'Was it worth it?'

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What was the impact on us, the future generation at that time? Many of us love it. It is an architectural masterpiece right on our front doorstep. There are those in the arts fraternity, of course, that say, 'Yes, beautiful piece of architecture but when it comes to putting on operas, putting on ballets, you have to do mini size. It is ugly inside. It is brutalist inside. It does not live up to what we want.' What if it had not been built? Would we have missed it? What are the opportunity costs? What are the impacts of actually building the structure and those sorts of projects on future generations? How do we predict it? Do we know? What is it going to mean to the next generation? Those are the types of issues that we are trying to wrestle with, that we have to try and get an outline around, when we think about the future funding.

Essentially, I suppose making decisions about public infrastructure requires us to look into the future to decide the needs for future generations. It requires us to make trade-offs for the future, today. As a result, any decision that we take about public infrastructure is likely to have a detrimental impact on future generations. We are then dammed if we do and we are dammed if we don't. We either leave them with debts or we leave them with a beautiful piece of infrastructure, whatever its use, but we leave them with the debt, or we do not do it and we leave them with the legacy of rust out. How do we balance the need? What are the issues? How do we, who operate in a very relatively short time period, who are driven by the impetus of an electoral timeframe, driven by 24/7 media etcetera, how are we able to take a step back and start to think of those decisions?

Perhaps one of the ways that we can start to think about it within our current system, within a system that is Australia, is to start thinking much more seriously about how the infrastructure decisions that we make are going to impact on the socio-economic and the policy capacities and delivery that is underpinning them. I want to also argue that the State Plans — most of us have got State Plans — provide bases, not perfect, but for rethinking our approach to the public funding of public infrastructure. They can be used to provide a firm basis for projects that are funded internally within a State, regionally etcetera. They can also be used as the basis for negotiating upwards and outwards with external funders and to some extent — from speaking to people in Victoria who would argue that we use this as a tactical strategy to be able to negotiate — with the Feds and say, 'Listen, these are our priorities. This is what we want funded.'

It provides a way of highlighting the interconnections between the building and the provision of social infrastructure. You do not build schools just for the sake of building them; you develop them so that you can educate. Where do we want schools to be? What are the regions going to look like? What are the areas going to look like? How do we bring those things together? How do we provide a platform for viewing the future, or negotiating what the future is we want, and then using that to start to make decisions both on policy and in terms of infrastructure. One great difficulty in terms of infrastructure is that most approaches to date have separated infrastructures out as a distinct class and have not really looked at them in terms of

how they impact on the delivery of services. Do they really fit with our policy approach? What are the implications going to be in terms of the operating spending? Do we include how much it will cost for teachers, for the upgrades, for example? We do it on an ad hoc basis.

I would argue that we do not focus on why we are doing this investment. I make this argument on the basis of history in terms of what has been done in different countries and what has and has not worked. Recent international experience is an attempt in reforms to fund infrastructure, as are some of the struggles we see here in Australia at the moment. Of course I do not have the answers to this complex question. If I did, I would be out there making millions of dollars and advising everybody on how to do it. But what I offer is a suggestion that hopefully you will be able to pick up and refine.

Speaking to an audience such as you, the notion of how you engage communities in this process of developing a plan, in terms of the process of engagement, in terms of getting the engagement of the community to recognise the trade-offs as well as the benefits that are being made in terms of a lot of the decisions. Later I will speak about one example that I think provides you with a way of stepping forward and thinking of modelling this type of thing. That example comes from Ireland. Some of you may or may not know the social agreements that have been reached over the last 20 years in Ireland and how these have influenced the decisions on infrastructure development etcetera. I am a budget person. I look at the world from a budgeting lens. I focus on budgeting as one of the primary sites of trade-offs that we make: the politics of budgeting if you like. Those who decide how to allocate public resources are basically deciding the future of our country. That is the perspective I come from.

In the private sector we typically rely on the market to make those decisions. In the public sector the budget process decides what goes in and what goes out, etcetera. There are three bits to budgeting, and three bits to this kind of decision-making, the first of which is that you have to get a model in the first place. In terms of infrastructure, where is the revenue generated? Is it from the Consolidated Revenue Fund? Is it from external sources? We have seen increasingly public-private partnerships as an alternative way of funding a structured development. Should the funding come from the Feds? Should it come from elsewhere? Will it be funded internationally? We see that a lot of the investment is primarily in infrastructure projects. The first area, I suppose, is that generation of money, revenues and funding.

The second component is: Where do the proposals come from? What claims are we making on those resources? What are the criteria for a good one? Who is developing? Where is the impetus coming from? Is it coming from regional? Is it actually imposed from the top? Where are those demands for spending coming from? Are they coming from the right areas or the wrong areas? Is it a reactive approach, or are we actually controlling the flow? That gets to the third component,

and that is: On what basis do we make the decision to fund? What criteria are we making?

One key problem of budgeting is: how do we decide to allocate X resources to activity A rather than activity B? How do we make those trade-offs? What are the criteria? I believe it is this third element that we really need to reconsider. It is that third element that we have not spent as much time thinking about, on a whole-of-government basis. We look at it within departments, certainly, we have our strategic plan, but I do not think that at a broad a level we have spent as much time as we should, because our budget process does not let us. Our budget process is typically annual; it is reactive, and it is responsive. I think budgeting needs to be put back into its box, if you like, as a form of funding, a way of actually being able to deliver the decisions and the policy decisions that are made elsewhere. That includes in Parliament, in regions, etcetera, through a broader engagement and negotiation with the community.

To date most reforms have focused on the funding side. There are two components of it. The first component says: How do we increase the funding that is available — a reaction to a perception that we were not funding enough infrastructure — and things like borrowing just for infrastructure purposes, so you actually get a separate stream of money coming in that can only be used for that. There are separate infrastructure funds; we have seen that here in Australia. Oil revenues, for example, get bracketed in some countries and can only be used for infrastructure investment etcetera. What you are doing is setting up a fund of money that can only be used for that.

One of the key issues here is not so much the amount; it is the consistency and the availability — the stability of that funding. We have seen a classic example over the last short while where the fiscal impetus, or the economic problems, have driven an increase in the availability of the funds and then a drawback. That kind of thing does not lead to good policy-making in terms of infrastructure. We can be reactive — we might have a couple of projects on — but why are we making those sorts of decisions? I think the key issue here is in terms of making sure we have a stable funding basis.

We have also looked for alternative funding. We have looked for public-private partnerships, etcetera. I will not go into the complexities of that; many of you would be aware of the strengths and weaknesses of adopting those kinds of things, and the contractual issues of how we work that out. We also look to other levels of government for funding. But really we are talking about a relatively small quantum in terms of change. The problem is — and budgeting 101 tells us — that the structure and project funding is the easy thing to turn on and off when we have a budget crisis. And this, of course, leads to those swings and roundabouts: an overproduction here, a cutback over here; do we defer or do we delay; and the frustrations that start to come out through that. Do we only invest when there is a crisis, or do we somehow find a way of resolving that? In the United Kingdom we

have seen an attempt to really increase and ramp up the public infrastructure. That in itself was successful. I was invited to talk to a similar group of people and listen to their frustrations in terms of the issue: yes, we have more spending, but to what end? What are we achieving for it? How is it improving our policy outcomes? What are the issues here? I think the building – and – doing thing together has become one of the real challenges.

In terms of ensuring that the proposals are better, a lot of work has been done. A lot of work has been done on: Have you got the quality? Have you done the costing? What are the accounting reforms etcetera? It is very much about improving the costings and things like that. I will not go into any of that technical stuff because it will probably send you to sleep. But the key issue here is: what is the quality? Is it value for money? Are we getting a return on our money? To some extent, these have been useful. It says what is good and what is bad etcetera. I would argue that is being pushed very much from a technical perspective. What constitutes a good project? It has left aside many of the other issues. ‘Good’ does not necessarily equal ‘efficient’. The most efficient program can be completely unneeded, etcetera. I would say that we need to think about where the impetus comes from, and we need to think about who is doing the claiming for it. Is it just being done on an individual basis? Is it coming simply from departments? Where is this push coming from? I think we need to think about that more.

But more broadly, I think we need to think about why government is doing it. Why does government invest in infrastructure? Historically we see three real reasons, and these are just big, broad categories. First, you probably think of public investment in public infrastructure, in monuments and things that basically established the dominance of the regime, things that established law and order – such as Parliament House, courthouses, and so on. I suppose I would be speaking heresy if I were to suggest that some of the very big sporting arenas and things like that are perhaps a little in that area at the moment. They are very much about presence and have a symbolic component. Perhaps the Opera House is that kind of investment. I might suggest that perhaps we do not need as much of that.

The second group is around the area of nation building. Australia was called a nation-building State and then apparently we changed our mind, back in the 1980s. But the infrastructure was still nation-building. As Bill said earlier, this is about nation-building — about how we establish the economic and social infrastructure that is going to pull us together. Here we are talking about the highways, the railways, the ports, the dams, the airports, and those types of things. They differ from the first group because they actually have a return; they are providing an ongoing public value, etcetera. They have maintenance costs, but typically they do not have as high operating costs.

I would argue that they belong in the national domain. I think we need to start to really think about how we work that at the national domain. Yes, we need input from regions, but I think those trade-offs have to be made at the national level.

Finally though, as government moved into broader areas of social economic policy, such as education, health, public housing, local transport, and those types of things, we saw a very different type of public infrastructure — one that just has to be linked with the delivery of public policies, that has ongoing operation costs associated with it. As I said previously, you cannot build a school without teachers; you cannot just build it and leave it and hope that it keeps on working. The costs of keeping them running are probably higher than the other costs. There is a redistributed component here. This is just what government does in terms of policies. The problem with this is typically that there are very many of them. All of them are worthy. They differ in terms of the regional demands for them. Right now, as we know, Sydney, and New South Wales are crying out from an infrastructure crisis. We could argue about why various decisions have been made. But money has been allocated in terms of operating these things and maintaining them. We need to look at that as well as with the trade-offs.

The question is: How do we make decisions on that lower component? I think it is that component that really needs to be hooked in with a much broader policy strategy, as I said, a State Plan type of approach, but one that is much more based on negotiations, consultations, etcetera. I have to make a broad statement here about the State Plans, and I know that they differ between States. But what we have seen is that typically they have been drawn from the top, and we have educated and we have provided a few changes here and there. The product, if you like, of regional areas is that they have not had the same sorts of social engagements that we have seen elsewhere in.

I point to the example of Ireland. Over the last 20 years Ireland has had three basic plans. The first is the social and economic agreement, 10 years. It basically provides architecture for a number of different social engagements and consultations that come together, that recognise the trade-offs, that involve the representatives of key parts of the organisation. Driving it is an overarching institution called the National Economic and Social Council. It sits outside government, although it is informed by the Prime Minister's Office and the Secretariat to the Prime Minister's Office. The Board includes 20 representatives from across different parts of society. Ireland being Ireland, they include agriculture, business, trade unions, and community and volunteer sectors. They also include the 10 main heads of department. Their job is to consolidate and build together that negotiation process, and to run all the different forums etcetera that come together in a document.

The important part is that being part of that discussion is more important than standing outside and throwing stones at it. In the end you have an inclusion; you have much more of a networked forum of governance if you want to use it. We have a second group who are evaluating and looking at the plan and how it worked. You do not need to know the details of this. That social engagement, 10 years, then spawns two separate plans. One is the national development plan, which is about seven years at the moment, and it identifies the areas and the need for public infrastructure. It is linked with the social and policy objectives. It is used to

negotiate outwards, as I have said, up with the EU. The tap is slowly being turned off in terms of the EU, but what we are seeing is that there have been shifts in terms of where that money is coming from. So the source of funding is not as important as identifying the types of projects we need and then starting to say: How do we do these projects?

Because the plan is for 10 years, there will be a number of different Governments. The political realities of course are that you are not going to have a Government that says, 'Thanks very much for this, we will go and implement it.' What is the point of getting into Government? What we have seen is a coalition agreement, even if it is majority parties, which says that over the term of this Government these are the policy areas that will be the priorities. Is that possible in our system? One of the things we have seen is that it started off with a coalition Government and over a period of time in Ireland they started to have a majority Government and it was sustained. It meant there was a sustained period of negotiation and discussion at the outset of the Government and then the rest was about how you delivered this. How was it to be delivered? We certainly are not all friends here in Parliament and we certainly do not get rid of parliamentary accountability but what you are being held accountable for becomes much clearer and the role of parliamentarians becomes much clearer because they are able to negotiate and influence what the priorities are.

The Opposition is just as important in that process as the Government. Regional representatives, people from different areas, are very much engaged — this is what we have agreed in our area; we are delivering it and working it there. So you are very much able to shift the role of different political actors as well as actors in the executive. One of the important things is that there are institutions outside Government that continually feed into this process, almost acting as an honest broker, if you like, to be able to criticise. These institutions do not act, however, as alternative decision sites. They are complementary decision sites; they work together. They are seen as a conduit for different types of institutions to work together. Experience shows that if you are setting up conflicting or competing sites for decision-making it is not going to work. But if you have two that recognise there is a trade-off, you are much more likely to be able to take a different approach. A negotiated approach to setting out the broader frameworks of policy and socioeconomic objectives that then provide the criteria by which you make decisions on whether this is or is not a good project. How should we do it? Do we really need the funding and where should the funds come from? ▲