FROM THE GROUND UP
Infrastructure Victoria public consultation
Better Infrastructure Initiative Submission
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Introducing the Better Infrastructure Initiative

The Better Infrastructure Initiative is a recent strategic expansion of the highly respected John Grill Centre for Project Leadership at the University of Sydney that is headed up by Executive Director, Mr Garry Bowditch.

A core objective of the Better Infrastructure Initiative is to provide critical thinking, that is objective, timely and rigorous. We believe that challenging the status quo is an important ingredient for success not only for institutions, but also nations.

The Better Infrastructure Initiative is a call to action to maintain momentum for infrastructure development, while adapting to a more connected, congested and contestable world.

Private capital and ingenuity is vital to the further improvement of public infrastructure. It has the potential to transform it for the better, but this will depend on accelerating and committing to better public governance standards that invite innovation and value for money consistent with community standards.

People and customers matter in infrastructure, along with the environment. The Better Infrastructure Initiative is a unique knowledge partnership with governments, business, academia and the community to ensure infrastructure delivers its benefits sooner and with greater effect.

The initiative aims to help fulfill an urgent need for timely, concise and insightful applied research to support deeper institutional knowledge and the role of markets towards enhancing the efficiency and efficacy of infrastructure.

The work of the Better Infrastructure Initiative is guided by 10 key propositions:

1. Better infrastructure service provision for all Australians, rather than just more infrastructure, is the key to more community acceptance, value for money and in turn help to re-establish Australia’s global infrastructure leadership

2. Governments should rebalance their infrastructure priorities by assessing a full suite of options; especially capital-saving and service outcome focused projects, wherever it is more efficient to do so

3. All three levels of government in Australia should commit to actively facilitating market development opportunities with pricing for quality service outcomes that see infrastructure businesses engaging with customers, not policymakers lobbying voters

4. Where markets are not possible, governments must reform infrastructure procurement practices so they become the buyer of infrastructure services (not assets), and pay on the basis of performance and outcomes

5. All infrastructure development should be an opportunity for innovation and productivity growth through a dynamic supplier community centered on customers and risk management

6. Government’s must commit to developing effective market design capabilities that champion collaboration, systems thinking and contestability in resolving infrastructure priorities. Enabling a customer-led infrastructure services market that openly tests
whole of government and network considerations should form a critical element of project approval.

7. Every government is responsible for evidence-based policy development and decision-making; however, calls to address this in infrastructure have been inadequate and urgent action is required to ensure these principles are applied.

8. Enhanced community engagement is a pressing infrastructure priority; an infrastructure services market focused on customers (and stakeholders) is a direct and practical means of seeking community input.

9. Infrastructure Australia, state equivalents (plus G20 Global Infrastructure Hub) should be a repository to inform current and future policymakers on past projects and infrastructure-related reforms.

10. Governments must continuously invest in the next generation of political and bureaucratic leadership, to enhance their experience, understanding and collaborative skills needed for integrated long-term planning, project execution and whole of life management of infrastructure networks.
Submission

Our submission to Infrastructure Victoria’s *From the Ground Up* Public Consultation should be read in conjunction with our recent thought leadership paper, *Re-establishing Australia’s Global Infrastructure Leadership*, authored by Mr Garry Bowditch that was released in February 2016.


This submission focuses on a limited number of areas.

In summary the submission:

- Supports the articulation of a clear set of guiding principles, objectives and needs that will guide Infrastructure Victoria’s work.
- Argues that the focus on ‘not just building things’ has the potential to enable more innovation through a stronger value creation model centered on the customer. This may help to guide better project selection and prioritisation of infrastructure that is scaled, targeted and feasible.
- Supports deliberative democracy as a basis for community consultation, arguing this should be a permanent feature of Infrastructure Victoria’s work.
- Proposes a new model for community engagement that would enable the community to propose projects through a modified unsolicited bid process.
- Argues that a focus on customer-led infrastructure is intended to acknowledge that the customer is more concerned with service outcomes and less with the ‘physical assets’ and who owns it. To achieve more customer-led infrastructure requires greater availability of information to inform all market participants about the services required, the prices customers are willing to pay and the costs of delivering different service options now and into the future.
- Argues that implementing customer-led infrastructure requires a focus on developing an infrastructure market that establishes both a market for projects and a market for service outcomes that coexist and interact with each other.
- Proposes that Infrastructure Victoria establish a ‘broker unit’ that would be responsible for working with communities and local councils to develop small-scale projects that would then be investable by the private sector.

We would be happy to discuss the issues raised in this submission, and other areas within our expertise.

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Objectives

We note Infrastructure Victoria has articulated a set of Guiding Principles with clearly defined Objectives and Needs. In particular Infrastructure Victoria has not framed objectives around specific sectors, but across sectoral lines with a focus on improving social, economic and environmental outcomes. We further note Infrastructure Victoria’s statement that its strategy is not based around ‘just building things’ but identifies the need to get the best value out of any new projects.

The establishment of a clear set of principles, objectives and needs creates a governance framework for infrastructure that has the potential to enable more innovation through a stronger value creation model centered on the customer. This may help to guide better project selection and prioritisation of infrastructure that is scaled, targeted and feasible.

The Better Infrastructure Initiative has identified the current political economy of infrastructure as problematic. It is too often driven by a sugar-hit mentality of Keynesian counter cyclical fiscal policy. This has contributed to a project selection process that can result in poorly conceived projects that fail to lift productive capacity and fail to serve customer needs satisfactorily.

Our basic checklist for informing the question ‘why this project?’ revolves around four pieces of information that can help translate public policy objectives into design and operational solutions that are sensible and enduring.

1. What is the strategic objective of the intervention?
2. Articulate the problem, and how it is being addressed?
3. Detail expected measurable outcomes to benchmark success/failure.
4. Public scrutiny of cost-benefit (and NPV) analytics of approved and rejected candidate projects.
Consultation

Infrastructure Victoria’s strategic approach is being supported through a ‘deliberative democracy’ consultative process that involves the establishment two citizen juries.

We believe that deliberative democracy offers the potential for the Victorian community to become involved in what are otherwise seen as complicated planning issues. The involvement of the community in decision making has the potential to result in final decisions that, whilst all people may not be happy, are likely to have greater public support.

Deliberative democracy techniques, including citizen juries and deliberative polling should be utilized as permanent feature of Infrastructure Victoria’s activity program. The key benefit of deliberative democracy is that it builds confidence. Selective use of deliberative democracy has the potential to undermine community trust.

One area of global best practice is the French National Commission for Public Debate (CNDP), an independent administrative authority established in 2002 that provides a mechanism for the French public to participate in the development of significant infrastructure projects.

Projects above a certain threshold are automatically referred to the Commission which consists of 22 members from a diversity of backgrounds. The Commission establishes special committees of public debate that will then establish arrangements to inform the public about the objectives and main features of a project. The consultation period is held over four months with the ability to extend if needed.

The participation of the public in infrastructure projects has resulted in the abandonment of some projects such as an LNG terminal in the town of Verdon-dur-Mer which was recently rejected on the basis that the terminal was on a protected coastal zone which was a habitat for migrating birds.

A significant project that has been subject to public consultation by the CNDP is the Grand Paris Express, a railway ring route with 68 stations that will connect neighbourhoods and involve extension to existing Paris Metro lines. The objective of Grand Paris Express is to reduce congestion and car pollution, relieve congestion on the RER, combat urban sprawl and promote economic development of the region.

The Better Infrastructure Initiative believes that there is merit in Infrastructure Victoria exploring consultative mechanisms that enable the Victorian community to not only review proposed infrastructure projects, but to propose projects.

One of the challenges that those that work in the infrastructure sector face is that there is often agreement on the infrastructure that is needed, and how it can be funded. But we have to be very honest and admit that whilst we are getting much better at talking to each other, we are not so good at talking to those for whom infrastructure will be built and maintained – the community.

Part of the problem is that there has been an underlying assumption by policy makers that ‘we know what is good for you.’ Even if that is true — and that is a big question — by not developing robust community engagement models, we open up the potential for resistance to change.

To break through this current impasse there is a need to establish genuine consultation mechanisms that puts the community at the centre of infrastructure decision making. Our proposal has four core elements:
1. Adapt unsolicited bid processes to provide individuals and communities with the ability to put forward their own proposals. Community Unsolicited Bids would not have to be costed, or require detailed plans, but would provide a mechanism for individuals and communities to directly propose their own solutions to problems.

2. Allow individuals and communities to comment on unsolicited bid proposals made by others. By enabling comment on proposals this will enable voices to be heard and ideas discussed. If an idea is good it should have the capacity to survive rigorous debate.

3. Establish structured deliberative polling as a permanent mechanism to provide formal feedback from the community on infrastructure planning and investment.

4. Provide open and transparent reporting of all community engagement activities. Where there is disagreement it should not be 'swept under the carpet' but acknowledged and responded to.

**Customer-led infrastructure**

We note, and support, statements in the “From the Ground Up' Consultation Paper that infrastructure projects do not have to be big and that sometimes small scale, well-targeted investments can have the biggest impact.

We believe that while megaprojects are important to meeting infrastructure demand, the emerging business environment is also encouraging worthwhile smaller-scale interventions through better technology and information exchange to be potent and more cost-effective alternatives. These developments are an important precursor to shifting infrastructure from a cumbersome administrative process of planning, building and maintaining to that of infrastructure markets driven by dynamic customers and suppliers of infrastructure services.

Recognition of the importance of the infrastructure customer is a fundamental first step towards reinvigorating the Australian infrastructure consensus. To do this will require very different motivations, behaviour and skills from governments and the private sector.

Customer-led infrastructure is intended to acknowledge that the customer is more concerned with service outcomes and less with the 'physical assets' and who owns it. To achieve more customer-led infrastructure requires greater availability of information to inform all market participants about the services required, the prices customers are willing to pay and the costs of delivering different service options now and into the future.

An infrastructure market establishes both a market for projects and a market for service outcomes that coexist and interact with each other. More importantly, it has a set of normative values that govern the overall market so that it can orderly and consistently operate.

By focusing on the objective that is being sought, an infrastructure market enables different options to be tested that can meet the overall objective. An infrastructure market will only build an infrastructure asset once it is determined that to do so represents the best mechanism to achieve a particular objective.

To be effective, an infrastructure services market needs to be active across the life cycle, and most critically at project conception. In doing so, it is intended to create a new competitive tension that opens up scope for service providers to innovate, better use existing assets and focus on customer service outcomes without recourse to excessive capital expenditure.
Innovation in financing

There has been a great deal of discussion around funding and financing models for infrastructure.

The Better Infrastructure Initiative understands that the reality is that someone must pay for infrastructure services.

There are only three sources of funding – those who use the services, those who otherwise benefit from the use of the services (especially through their proximity to the infrastructure assets concerned) and taxpayers (broadly defined) through the provision of money by various levels of government.

Whilst funding by way of user charges provides the best opportunity for infrastructure services to reflect the value that consumers place on them, one of the challenges is that Federal-State-Local Government can act as an impediment to establishing customer-led infrastructure, even when there is clear community support.

The area that is most impact by Australia’s federalist governments is the inability to develop small-scale infrastructure. Small scale infrastructure projects, which may have localized community support, have difficulty attracting support from state and Federal governments. Where small-scale infrastructure projects are supported by Federal and State Governments, there is often the impression left in the community that support is politically motivated, owing to the lack of consultation and an overwhelming desire of politicians to be seen to spending money.

It is noted that the Victorian Government’s intention to cap Victorian council rate rises to the rate of inflation, or 2.5% for 2016/17.

Given the inability of local councils to raise their own debt, the capping of rate rises will mean that Councils will need to fund projects out of recurrent revenues pool that are significantly constrained relative to the economic needs of population and demographic shifts over time.

The BII supports the Victorian Government in wherever there is an opportunity to develop innovations that increase the funding potential for small-scale infrastructure projects to be developed that are led by the community.

The private sector has the ability to provide finance for small-scale projects but in order to maximize opportunities it is necessary to address the major impediment to development, which is the small-scale nature of many community led projects.

Investors have a preference for larger scale projects on the basis that due diligence and transaction costs are spread over the total cost of a project. Large scale projects enable investors to invest at cost levels that are consistent with other areas of their portfolios. For superannuation funds that are required to report on costs, investing in smaller scale projects would involve higher portfolio costs.

One option to address this is for the Victorian Government to establish a unit that could act as a ‘broker’ and would be responsible to work with communities and local councils to identify projects that have the potential to be funded locally. There are many examples of how a community could support the development of small-scale projects. We have already seen examples in respect to wind farms. Community facilities such as gyms and basketball courts can be developed by working with potential funders that would include local clubs and schools.

Infrastructure brokers would work on developing projects to the stage where they would be investable. Brokers could work in conjunction with a revised unsolicited bid process that enabled communities to suggest small scale projects.
Conclusion

Victoria has had a proud history of infrastructure development and innovation, and is internationally recognised for this. It is critical Infrastructure Victoria (IV) will establish itself with a firm awareness of the successes and lessons from its past. This is an important element in reassuring the community of the integrity and intelligence IV will bring to bear in its important functions for the future.

The Better Infrastructure Initiative at The University of Sydney is committed to enhancing the quality of governance for the identification and prioritisation of infrastructure projects. In doing so, we recognise that the operation of the Federation is fundamental, and in particular the quality of the interaction between the Commonwealth and states. There is ample scope for Australia to do much better in this regard.

The Better Infrastructure Initiative stands ready to assist Infrastructure Victoria and all other states in the process of progressing reforms to our Federation that is respectful of expertise and authority of the States that ensures they have the flexibility and financial capacity to undertake these important responsibilities.

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