

Cranes need solid ground

'Number of cranes on the skyline' was former Premier Joh Bjelke-Petersen's famous measure of the vitality of Queensland's economy. And for evidence that enthusiasm for construction projects crosses partisan divides, recently retired Deputy Premier Paul Lucas enthused about how much he enjoyed approving and opening big transport projects.

The satisfaction gained by politicians from construction works is perfectly understandable: these projects are visible, they can be measured, and they allow a political sponsor to point to some achievement in return for the years of the unrelenting hard slog of high office.

And it is not only politicians who like these projects. Any involved employees can take pride from creating something out of more or less nothing—of seeing a building or flyover take shape from a vacant site to a finished serviceable facility. In a direct way, not always easily satisfied by office work, construction fulfils a creative urge, a deep-seated human desire to 'make a difference'.

But the cranes on the horizon are simply the visible tips of very large networks of goods and services, and personnel and finance that somehow come together as a project. Some of the elements that contribute to projects are labelled as infrastructure, which can be defined as facilities—usually public—that enable people and companies to conduct economic activity.

This paper will focus on the infrastructure relevant for the development and marketing of industrial and commercial property. This infrastructure comes in three main forms: hard, soft and green.

Hard Infrastructure

In mainstream commentary, infrastructure is usually taken to refer to the physical facilities that allow an industrial society to function, including:

- transport—roads, rail, ports, airports
- telecommunications—NBN, telephone
- utilities—electricity, water supply, gas
- social—schools, hospitals

These are best differentiated as hard infrastructure. The curious thing about hard infrastructure is that it is entirely dependent for its existence on soft infrastructure (competent personnel and information), and people, in turn, are absolutely dependent upon the health of green infrastructure (raw materials and the environment).

Let us examine these two other major classes of infrastructure.

Soft Infrastructure

'Soft' infrastructure includes:

- human capital—skills, social cohesion, welfare safety net, trust, optimism
- information—data, corporate memory, serious media
- public institutions—property law, town planning, weights and measures, corporate regulation, TAFE etc., the public service generally.

These are essential preconditions for any economic activity: competent, well-informed people in the appropriate roles. And while the human capital and information up to a point can be generated by private-sector activity, they ultimately depend upon public institutions, which in turn rely upon a capable public service.

Consider a major new industrial estate. No matter how entrepreneurial, how skilled or how cashed-up a private construction company may be, the completion of this project is utterly dependent upon the efficient functioning of the following public institutions:

- A titles registry that allows land parcels to be assembled according to due process yet respecting the security of tenure of the landholders.
- Rating and taxing authorities that allow costs to be dispersed across a population when required for a collective good such as a new service road.
- A national treasury that manages the value of currency and regulates the financial institutions which will cobble funding together.

- Technically proficient public services (state and local government levels) that can assess the project and impose development conditions that prevent the worst excesses of enthusiastic promoters.

These services operate so effectively, so efficiently, and have done for so long that they are taken for granted. When they work well, they are invisible, and leaders in industry praise themselves for their own skills which they claim are the foundation of the economy. Well, entrepreneurial ambition is essential, but it will spin its wheels uselessly unless there is a set of civic institutions creating the circumstances upon which entrepreneurs can ply their trade.

The best evidence of this can be seen in any impoverished Third World country. The absence of reliable institutions such as trustworthy banks and trustworthy titles registries that allow property to be mortgaged as an anchor for loans is a major reason why countries remain in the early stages of the development cycle.

But these services don't happen by accident, and if the preconditions for their successful functioning are undermined, they will falter.

Soft infrastructure also includes a vigorous civil society. To a reformist government advised by the property industry, community-based critics such as environmental groups might be a nuisance and an obstacle to project development but in the long run they may be good friends of industry. They are a counterfoil to the boosterism that ignores warning signals and then hits unforeseen consequences. They also grant legitimacy.

Green Infrastructure

'Green' or 'environmental' infrastructure includes:

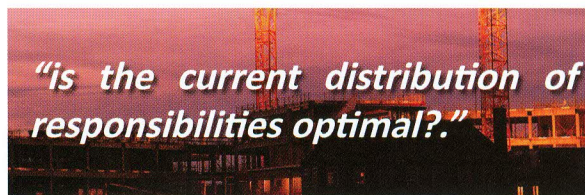
- natural assets to deliver a flow of the necessities of life such as clean air, clean water, food and fibre—ecosystem services
- raw materials to supply industry and commerce—minerals, coal, gas, timber, fibre
- amenity services to generate human capital such as individual wellbeing, family lifestyle and civic peace—open space, parklands, beaches, gardens

Developers of industrial property in industrial suburbs and their agents can be excused for overlooking the contribution that environmental infrastructure makes to their industry, given the absence of sparkling beaches and green forests on industrial estates. However,

the viability of the commercial enterprises housed in factories and warehouses depends ultimately on the extraction of raw materials from the natural environment or their processing into inputs into other manufacturing.

Even for those companies whose operations are several steps removed from the mines and quarries and farmlands, their staff return each evening to meals made from wheat flour, farm-grown steak and fresh vegetables. If their food comes out of tins, the tin plate is manufactured using minerals won from the ground by the expenditure of energy derived from other minerals mined from the ground.

The point here is that it behoves governments to commit as much policy attention and funding on securing the capacity of the natural environment to yield energy and raw materials sustainably, indefinitely, as it does on investing in roads, rail and ports, for precisely analogous reasons: that as infrastructure, they are essential preconditions for prosperity.

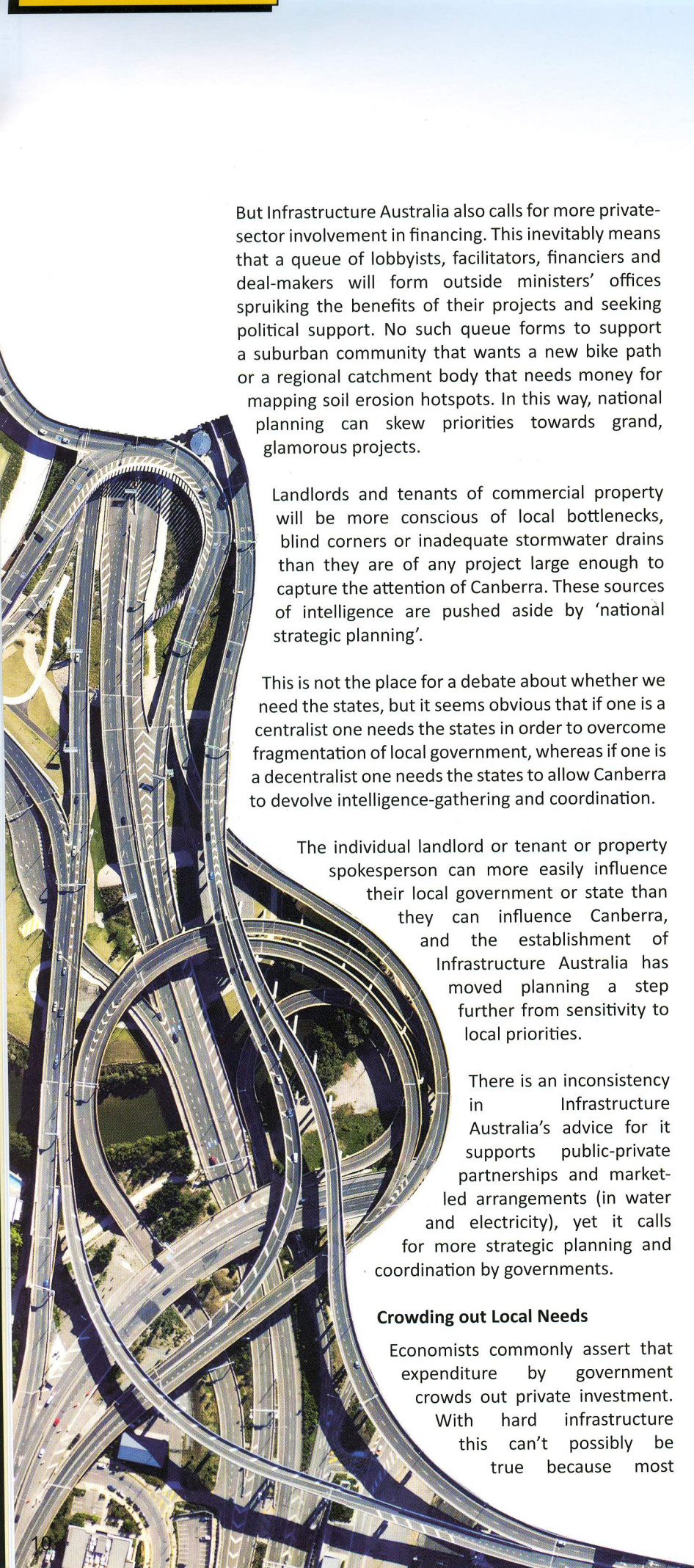


Public-Private Schizophrenia

All three levels of government in Australia are involved in the planning, construction and maintenance of infrastructure. This raises the question, is the current distribution of responsibilities optimal? Centralisation of planning and financing improves coordination and alignment with national goals, but it weakens the influence of local voices. A feature of published analysis by Infrastructure Australia is its plea for better national strategic planning.

Effective strategic planning by government should ensure that the construction industry looks forward to a predictable pipeline of projects so that the industry can maintain its own networks of competent suppliers, subcontractors, consultants and tradesmen.

By definition, strategic planning can be undertaken only by governments. Indeed, we elect governments to do precisely that on the community's behalf. The free market can't do strategic planning outside the firm as individual parties such as landowners, investors and project proponents are focused on one project or property at a time.



But Infrastructure Australia also calls for more private-sector involvement in financing. This inevitably means that a queue of lobbyists, facilitators, financiers and deal-makers will form outside ministers' offices spruiking the benefits of their projects and seeking political support. No such queue forms to support a suburban community that wants a new bike path or a regional catchment body that needs money for mapping soil erosion hotspots. In this way, national planning can skew priorities towards grand, glamorous projects.

Landlords and tenants of commercial property will be more conscious of local bottlenecks, blind corners or inadequate stormwater drains than they are of any project large enough to capture the attention of Canberra. These sources of intelligence are pushed aside by 'national strategic planning'.

This is not the place for a debate about whether we need the states, but it seems obvious that if one is a centralist one needs the states in order to overcome fragmentation of local government, whereas if one is a decentralist one needs the states to allow Canberra to devolve intelligence-gathering and coordination.

The individual landlord or tenant or property spokesperson can more easily influence their local government or state than they can influence Canberra, and the establishment of Infrastructure Australia has moved planning a step further from sensitivity to local priorities.

There is an inconsistency in Infrastructure Australia's advice for it supports public-private partnerships and market-led arrangements (in water and electricity), yet it calls for more strategic planning and coordination by governments.

Crowding out Local Needs

Economists commonly assert that expenditure by government crowds out private investment. With hard infrastructure this can't possibly be true because most

government-sponsored construction projects are carried out by private contractors anyway, with the government oversight and tender management being a very minor part of the total costs.



"Infrastructure is the foundation of future economic activity"

One form of crowding out that really happens is that taxes crowd out some private consumption expenditure. By definition, consumption expenditure is terminal, unlike infrastructure, which is by definition the foundation of future economic activity. So anyone in business who wants more infrastructure should applaud higher taxes that enable governments to channel funds away from private household consumption. Yet almost daily, it seems, we see calls by business leaders for tax cuts to stimulate economic activity. This is 'magic pudding' territory.

Just as problematic is the crowding out of local-scale projects by the grand-scale expenditures that attract the attention of Infrastructure Australia. Let's take a closer look.

What do Readers Think?

I would be interested to know what items of infrastructure are most pressing for the readers of this magazine. If you have a few moments, would you please send to the Editor k.hazell@kingco.com.au or to me at policylocums@brisnet.com.au your answers to the following questions:

1. What items of public infrastructure—hard, soft or green—would be most beneficial to you and your business at the present time?
2. If you were in government and had \$5.3 billion to spend on new infrastructure—hard, soft or green—over and above ongoing routine works and maintenance, what innovative items would you fund in order to increase sustainable business activity?

Conclusions

Governments need to fund not only the big-ticket construction projects, but also the less glamorous forms of infrastructure that allow individual firms to get on with their business and entrepreneurs to generate workable commercial ideas.

There is a vital role for all three levels of government

in shaping infrastructure works programs. The current influence of a centralised body in Infrastructure Australia does not ensure that local concerns will be given due weight: local and state governments must retain their planning capacities and their sensitivity to local voices.

The trend to more centralisation in Canberra by its very nature builds momentum for the glamorous, large-scale projects. By its nature this bias will crowd out local projects that would have been of direct benefit to the small business sector, and will crowd out improvements to the soft and green infrastructure that would have nourished the roots of economic activity everywhere.

References

I acknowledge contributions from Peter Shilton and Richard Sanders.

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