

Sustaining Australia's Infrastructure Projects: Private Finance Initiative

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Abstract

Purpose – The purpose of this paper is to provide the Australian Government ways to encourage private financing and funding for major infrastructure projects. Particularly, the paper will provide a review of the theory to improve Private Finance Initiative (PFI) decision-making and implementation processes to facilitate a reduction in the costs of public infrastructure projects.

Design/methodology/approach – This paper reviews salient literature, and reflections of the author in their own infrastructure project environment, to identify ways to improve decision-making and implementation processes to facilitate a reduction in the costs of public infrastructure projects. The paper will then offer recommendations and conclusions for practice in the Australian government project environment.

Findings – Robust PFI project business cases are able to encourage private investment in Australia's infrastructure projects by undertaking a streamlining the business case process.

Practical implications – This paper suggests how the Australian government can improve decision-making and implementation processes to encourage private investment and reduce costs in public infrastructure projects.

Originality/value – This paper builds on prior work in PFI projects, especially in UK government project sector. It provides a valuable mechanism for the Australian government to improve the decision-making and implementation process to facilitate a reduction in the costs of public infrastructure projects.

Paper type – Literature review

Introduction

Sustaining Australia's infrastructure projects, especially providing innovative finance solutions are essential for Australia's infrastructure growth. The big question is: How is this possible? Treasurer Joe Hockey recently announced that governments do not have the capacity to fund all of Australia's infrastructure requirements, and is exploring innovative ways of funding new projects. This paper reviews salient literature that underpins a mechanism to reduce costs of public infrastructure projects.

Literature review

Sustaining Australia's infrastructure projects, especially the consideration, formulation and implementation of innovative finance initiatives is essential for Australia's infrastructure growth. However, some of the major questions being asked by Australia's leading political and business officials are: How can this be achieved? If so, will it be achieved? Currently, Australia is experiencing significant challenges to finance infrastructure projects, especially innovative mechanisms to finance our infrastructure projects (Infrastructure Australia, 2011). A way to encourage private investment in

Australia's infrastructure projects is by considering the main lessons learnt from Private Finance Initiative (PFI) projects.

A PFI is a particular form of public-private partnership (PPP) procurement that funds public infrastructure projects with private capital with a focus on achieving value for money (Clifton and Duffield, 2006), which typically uses around 90 per cent of debt finance and 10 per cent of equity finance (National Audit Office, 2010). The use of private finance has become the predominant form of investment in many sectors of the UK government. For example, the UK government has used over 500 PFI projects with a capital value in excess of 28 billion pounds, excluding small joint ventures to the London Underground PPPs which has a capital value of 18 billion pounds (National Audit Office, 2009). This clearly demonstrates that PFIs can be used to finance major Australian infrastructure projects. However, are they an efficient and effective way to finance Australian infrastructure projects? According to the National Audit Office (2009) when used for the right reasons and managed effectively, it works well, but when used for the wrong reasons or is managed badly, it does not deliver projects well. The main reason why PFI projects do not achieve their objectives is because of poorly structured project business cases (National Audit Office, 2009). This implies that organisational and project portfolios' have robust strategies to realise project objectives, but lack a robust project business cases to achieve project strategies. This is reinforced by Henjeweale et al. (2014) empirical study of full business cases of 44 PFI projects to the value of 350 million pounds in the UK that revealed client variations prior the financial close of business cases contributed to considerable cost and time overruns. According to the National Audit Office (2010b) the time taken to develop business cases in the UK PFI housing programme has increased. Large PFI housing projects take almost two years to develop their business cases with the main reason being to ensure that business cases are robust before they proceed for formal approval. This reinforces the point that PFIs can be used to finance Australia's infrastructure projects, but the main challenge, and thus opportunity, is to streamline business case decision-making and processes. This will enable Australian infrastructure projects achieve better value for money outcomes including the encouragement of private finance. A way to achieve robust business cases is to implement a collaborative PPP approach to business case formulation and implementation. This is clearly evident in a PPP study conducted by Hwang et al. (2013) that revealed optimal use of public and private sector expertise, resources and innovation to meet public needs effectively and efficiently in PPPs is essential to achieve better value for money.

Conclusion

Clearly, there are compelling advantages to the Australian government to use PFIs to finance Australian infrastructure projects. The main challenge for efficient and effective PFI projects is robust business cases. The main mechanism to achieve robust business cases is to encourage a collaborative PPP approach to their formulation and implementation. This will enable the Australian government to streamline PFI project business case decision-making and processes, and thus encourage private sector finance and achieve better value for money outcomes for the Australian community.

There are a number of limitations to be taken into account when considering this paper including the limited literature review and the focus on PFI project business cases. Other factors to consider are the level of capital gains or losses from PFI projects, organisational and project cultures, and the state of the local and wider economy on the effect of PFI projects.

About the author

Duro Kolar is the Principal Consultant and Director at Kolar Consulting, and PhD student at the School of Property, Construction and Project Management, RMIT University, Melbourne, Australia. Kolar Consulting is an Australian research, consultancy and advisory company. We focus on providing strategic innovative and practitioner approaches to the management of infrastructure projects for sustainable success. We achieve this by undertaking global research and working with leading organisations to develop and deliver practical solutions to complex project challenges.

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