

Coalition Senators' Minority Report

The Nation-Building Funds Bill 2008 and the Nation-Building Funds (Consequential Amendments) Bill

The Nation-Building Funds Bill 2008 and the Nation-Building Funds (Consequential Amendments) Bill 2008 purport to establish the Building Australia Fund, the Education Investment Fund, and the Health and Hospitals Fund. It is intended that at their inception on 1 January 2009, the three funds will have a total of \$26.3 billion, rising to \$41 billion by 1 July 2009, as announced in the May 2008 Budget.

Responsibility for the management of the investment of these funds lies with the Future Fund Board and the Future Fund Management Agency, which operate under the *Future Funds Act*. The Board is required to make its investment policies public and published on the internet, with all payments from the funds requiring authorisation by the Finance Minister.

The funds' initial value of \$26.3 billion on 1 January will consist in the main part of funds from the 2007-08 Budget surplus left to the new Labor Government after the 2007 elections. Funds from the last Coalition budget will provide \$7.5 billion, \$2.5 billion and \$5 billion to the Building Australia Fund, the Education Investment Fund, and the Health and Hospitals Fund respectively. The remaining \$5.1 billion for the Building Australia Fund will consist of \$2.7 billion from the proceeds of the T3 sale and \$2.4 billion from the closure of the Communications Fund established by the Coalition in 2007. The Education Investment Fund will see its remaining \$6.2 billion of funds come from the closure of the Higher Education Endowment Fund which was also established by the Coalition.

Full funding

While the initial funding pool of \$26.3 billion has been secured through the previous Coalition Government's budget surplus and funds, the full \$41 billion in funds announced in the 2008-09 Budget will require a further \$14.7 billion. Coalition Senators hold concerns about the Government's ability to source these funds given the current economic downturn and the Government's decision to spend most of the anticipated surplus. With the option of a budget deficit being discussed heavily in the media, Coalition Senators feel it would be a great disappointment for the Rudd Government to drag Australians back into debt after the previous Coalition Government worked so hard to not only pay off the \$96 billion in debt left to it by the previous Labor Government but to also leave a healthy surplus which is permitting the current government to create the funds such as those discussed in this report.

The Coalition Senators also question the integrity of the numbers associated with the funds by reason that these figures were booked in the MYEFO statement which does not include the substantial changes that have occurred with the national and global economy. We note that between the release of the MYEFO statement and where we currently sit, the stock market has since decreased by a significant amount, and during the committee hearings there was a complete paucity in information to ascertain what the balance of those funds are now. The investment process that secures these funds was also unable to be ascertained, and this should be of some concern in regard to the capacity of these funds to fulfil their objectives.

Funding adequacy

During the second reading speeches in the lower house from ALP members, the argument put forward is that the funds established by these bills will serve as a panacea for Australia's needs in the areas of infrastructure, education and resultant skills provision, and health. While Coalition Senators agree that investment in all three areas is laudable, a more realistic view on what these moneys can achieve should be taken, particularly in light of previous Coalition spending in these areas.

To begin with, the \$12.6 billion in the Labor Government's Building Australia Fund is less than a third of the \$38 billion in infrastructure investment the Coalition Government made in Auslink 1 and Auslink 2 alone. Infrastructure investment was taken very seriously by the Coalition Government during its term in government when it took infrastructure spending from 2.9 per cent of GDP when it started to 5.4 per cent at the last election.

As Mark Butler, the Member for Adelaide, noted in his second reading speech on these bills:

...iron ore and coal exports will require the equivalent of eight new 50 million tonne ports by 2015 at an estimated cost of \$16 billion.¹

If members of the Government are aware that \$16 billion is needed in ports for just the iron ore and coal export industries alone, then Coalition Senators feel that any Government claims that a \$12.6 billion infrastructure fund will solve Australia's capacity restraints should be viewed with suspicion. In addition, current demand for immediate national infrastructure funding will be around ten times the amount being offered in the funds, further highlighting the inadequacies of the Labor Government's policies in addressing our real nation-building needs.

1 Mark Butler MP, *House Hansard*, 25 November 2008, p. 53; quoting Don Argus.

'Whole of life' costs

One of the concerns held by Coalition Senators is that the real costs of the projects established through these funds are not being taken into consideration. Once the initial construction phases of projects have been completed ongoing costs must be addressed such as ongoing maintenance, replacement, and service costs. By not sourcing the money needed for ongoing costs from the funds, the Government will be able to announce more projects than would otherwise be the case. While this will mean more photo opportunities for the Government, it is misleading to the public by simply transferring the real costs of these projects to a time in the future and possibly to another government.

As stated in the bill's *Explanatory Memorandum*:

...where specific projects have an ongoing cost component, it is intended that such funding would be sourced through other means. This could include direct funding from the budget (outside the BAF), or funding by the States or Territories in relation to proposals that are brought forward as part of the COAG reform agenda.²

Examples of how such a short sighted approach to public policy carries on-going consequences can be found in Labor's 'Computers in Schools' policy. This policy, like the bills covered in this report, does not take into account the 'whole of life' costs which occur after the initial capital investment. What this means is that while the Government was able to announce an apparently beneficial policy, the exclusion of installation, maintenance and training costs meant that rather than benefiting, many schools were burdened with additional and recurrent costs at two to three times the initial cost of the computer. With such a dubious history of inadequate policy development, the claim that spending by these funds will be preceded by rigorous cost benefit analysis provides no assurance of the final benefits to the public.

State infrastructure spending

Just as the announced increase in the First Home Owners Grant saw many first home buyers wait for the extra funds before their purchase, so have these funds seen State infrastructure spending be put on hold. The possibility of transferring the costs of infrastructure development to the Federal Government has created an incentive for State Governments to cancel State funded infrastructure plans and instead bid for federal funds.

One such example of this comes from the Rees Government's recent mini-budget for NSW. The State Government had previously highlighted four 'priority projects' for infrastructure investment which, in the week prior to releasing the mini-budget, were to be completely funded by the State Government. However, the mini-budget states that the four projects had been submitted to Infrastructure Australia and that they 'will

2 *Explanatory Memorandum, Nation-Building Funds Bill 2008*, p. 17.

only proceed before 2012 if they are substantially funded by the Commonwealth'. Coalition Senators are of the view that cost shifting of projects from States to the Commonwealth is counterproductive in light of the country's infrastructure needs and will only serve to further reduce the impact of an already deficient funding pool.

Funding decision transparency

Coalition Senators note that, as they stand, the bills allow for funding decisions to be made without disclosure of the basis for the decisions to the public. The reasoning for this, as claimed by the Finance Department, is that such a move would constitute a breach of commercial confidentiality. Despite this reasoning, such disclosure is standard practice in other countries, e.g. USA and the Scandinavian countries, where not only is the information made public but, in the case of Senate and House Congressional Committees in the USA, companies are required to discuss their bids publicly.

Given the Rudd Government's record on policy decisions and the immediate and ongoing importance of these decisions to the Australian public, transparency regarding how decisions arrived at becomes essential, and Coalition Senators would like to see full disclosure on the Government's final decisions on which projects are chosen and rejected including all data, assumptions and models used.

Slush funds

While the potential coinciding of funding announcements with the next federal election has been met with scepticism from the public and the media, Coalition Senators note that along with inadequate transparency, the funds run a real risk of becoming 'slush funds' which deliver political outcomes rather than public goods. Investment in the areas of infrastructure, education, and health, carry long term consequences for Australia and media claims that Minister Albanese pulled the original legislation 'because it gave him insufficient ministerial discretion over how the money would be allocated'³ only serve to fuel concerns that these funds will be used for political advantage in spite of the country's actual needs.

The bills and the accompanying explanatory memorandum are lacking in specificity in the definitions of where the funds can be spent and although the generic headings seem suitable, there is little to stop these funds from being spent by any means seen fit by the minister including projects of dubious intent and questionable outcomes as to the prudent infrastructure requirements of our nation.

Coalition Senators would like to see the Government address the previously mentioned transparency issues to help allay these concerns and protect against any temptation that may exist for the current Government to abuse the budget surplus that had accumulated during the Coalition's term in government.

3 Katherine Murphy, 'Cabinet rift hits nation's building program', *The Age*, 31 October 2008, p. 1.

The long term nature of infrastructure projects

The Rudd Government's claim these funds will act as a further stimulus in support of the already announced stimulus package shows a politically driven interpretation of the needs of Australians and the Australian economy. During the Supplementary Budget Estimates some concerning aspects of the decisions behind the Government's stimulus package came to light. When asked who decided on the final amount of \$10.4 billion, Minister Conroy stated:

...ultimately the size of the stimulus package was a decision for government.⁴

When Senator Brandis raised concerns about the depth of analysis that was used to develop the stimulus package, the Minister's response was unconcerned:

Senator BRANDIS—Dr Gruen, Senator Joyce seems to have exposed the fact that half of the nation's surplus was spent without any modelling. Would it shock you to learn, if you are not already aware of it, that the Finance estimates were told yesterday afternoon that the costings for the expenditure of half of the nation's surplus were arrived at in the course of a few hours, between Saturday afternoon, 11 October and Monday morning, 13 October, by five public servants?

Senator Conroy—What an excellent job they did.⁵

The Rudd Government's track record for economical decision making has proven disappointing and claims that infrastructure projects will bolster the stimulus package further show lack of forethought. The nature of infrastructure projects means that they take many years to plan and complete making them inappropriate vehicles to deliver the short and medium term stimulus that the economy really needs. It is difficult to reconcile the Government's claims that these funds are long-term in nature yet appropriate for short-term stimulus. As stated by the Prime Minister in his speech to the Local Governments' Meeting:

Infrastructure takes time to build, infrastructure takes time to plan, infrastructure takes time to design and all that hinges on first-class planning.⁶

Public spending squeezing out the market

Any time government policy requires spending there is a consequential competition between government funds and private funds for the limited resources that exist in the market. Any decision by government to spend large amounts of large scale projects should take into consideration the capacity constraints that already exist in the market

4 Senator the Hon Stephen Conroy, *Estimates Hansard*, 22 October 2008, p. E39, quoting David Gruen.

5 *Estimates Hansard*, 22 October 2008, p. E40.

6 Hon. Kevin Rudd MP, speech to Local Governments Meeting, Canberra, 18 November 2008.

if any such spending is to avoid creating inflation as private business is squeezed out by public funds. The Government is very aware of levels of capital expenditure in Australia with the Prime Minister commenting last month on an ABS report that showed planned increases in capital expenditure by Australian businesses in 2008-09. The Australian Bureau of Statistics has released the *Private New Capital Expenditure and Expected Expenditure* report for the September quarter 2008 which showed private capital expenditure rose 2.9 per cent in the September quarter compared to the June quarter, and expectations of expenditure for 2008-09 are 1.6 per cent higher than in the July/August survey estimate.

With market conditions as they are, Coalition Senators are of the view that the Government spending that will come from these funds be preceded by careful consideration of their potentially negative impact on private investment.

Communications Fund

Coalition Senators also note that one of the consequences of these funds is the abolishment of the Communications Fund which the Coalition had set up to ensure that the communication needs of rural and regional Australians would not be forgotten. It is with regret that this fund has been taken away from those who are so often forgotten by Labor, and little consolation can be taken from the Government's ad hoc development of a national broadband network. Coalition Senators strongly argue that despite the Government's overwhelmingly metropolitan focus to date, rural and regional Australia forms an important part of this country and that the needs of people who do live outside of our cities should not be forgotten.

Conclusion

During its 12 years in government, the Coalition's record of strong investment in infrastructure, education, and health stands as a testimony to our dedication to the long-term well being of Australia. Accordingly, the Coalition supports these bills and their intended outcomes however there is a need to address the concerns raised in this minority report and consequently the Coalition will be seeking appropriate amendments in the Senate.

Senator Alan Eggleston

David Bushby

Barnaby Joyce

Deputy Chair