

Audit Report No. 02 2010-11

Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List

Introduction¹

- 2.1 In May 2005, the then Shadow Minister for Industry, Infrastructure and Industrial Relations announced the Australian Labor Party's (ALP) intention, if elected, to create a nationally led and coordinated authority, to be titled Infrastructure Australia, to work with the States and Territories to identify and achieve the most effective outcomes for nationally significant infrastructure.²
- 2.2 Following the ALP's election to Government, the Infrastructure Australia Bill was introduced in the Parliament on 21 February 2008, passed both Houses of Parliament in March 2008, and the Act commenced on 9 April 2008. The *Infrastructure Australia Act 2008* (the Infrastructure Australia Act)

1 The following information is taken from Audit Report No. 02 2010-11, *Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List*, pp. 11-17.

2 Stephen Smith (then Shadow Minister for Industry, Infrastructure and Industrial Relations), *Announcement of Infrastructure Australia*, Media Release, 12 May 2005.

established Infrastructure Australia and set out Infrastructure Australia's functions. Infrastructure Australia's primary function under the Act is to provide advice to the Minister, all levels of government, and investors and owners of infrastructure on matters relating to infrastructure.

Infrastructure Australia was also given a number of additional functions, including:

- conducting audits to determine the adequacy, capacity and condition of nationally significant infrastructure, taking into account forecast growth; and
- developing lists (to be known as Infrastructure Priority Lists) that prioritise Australia's infrastructure needs.

Governance arrangements

- 2.3 Under the Infrastructure Australia Act, the Infrastructure Australia Council consists of a Chair and eleven other members. The Minister appoints the Chair and the other members of the Council by written instrument made under the Act.³ The Chair of the Infrastructure Australia Council, Sir Rod Eddington, was announced by the Minister for Infrastructure, Transport, Regional Development and Local Government on 26 February 2008. The other eleven members of the Council were announced on 19 May 2008. The Infrastructure Australia Council has the statutory role of providing advice to the Minister for Infrastructure, Transport, Regional Development and Local Government (the Minister) on infrastructure matters, including the development of priority lists.
- 2.4 The Infrastructure Coordinator (a statutory office holder also appointed by the Minister under the Act) supports the Council in the performance of its functions. The Infrastructure Coordinator is appointed by the Minister on a full-time basis for a period not exceeding five years. The appointment of the inaugural Infrastructure Coordinator, Mr Michael Deegan, was announced on 22 June 2008, with his role formally commencing on 1 July 2008.
- 2.5 The Office of the Infrastructure Coordinator supports the Infrastructure Coordinator.⁴ As well as a small number of permanent staff members (16

3 The Act sets out a number of requirements in relation to the composition, background and skills of Council Members that the Minister must ensure are satisfied in making appointments to the Council.

4 For the purposes of this audit report, the term 'Infrastructure Australia' is used to refer jointly to the Infrastructure Australia Council, the Infrastructure Coordinator and the Office of the Infrastructure Coordinator. Otherwise, the report explicitly refers to the relevant party.

as at October 2009, including four staff in the Major Cities Unit) and secondees from State and Territory governments, a range of external advisors are engaged as required.

2.6 Infrastructure Australia is a departmental body recognised in legislation and is neither a prescribed agency under the *Financial Management and Accountability Act 1997* nor a statutory authority under the *Commonwealth Authorities and Companies Act 1997*. Accordingly, the Office of the Infrastructure Coordinator operates within the legal framework of the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG).⁵ Specifically:

- staff are engaged under the *Public Services Act 1999*, and are employees of DITRD LG; and
- financial reporting is consolidated within the annual financial statements of DITRD LG.

2.7 The May 2008 Budget included \$20 million over four years to fund the Office of the Infrastructure Coordinator, with \$0.5 million for 2007-08 and \$6.5 million in each of the remaining three years. A further \$1.0 million per annum was provided for the Major Cities Unit, located within the Office of the Infrastructure Coordinator.⁶ In announcing the Infrastructure Australia funding, the Budget Papers stated that:

The Government will provide \$20.0 million over four years to establish Infrastructure Australia, a statutory advisory council with twelve members drawn from industry and government, to work on developing long term solutions for infrastructure bottlenecks and investment in the nation's transport, water, energy and communication assets.

Infrastructure Australia will conduct audits of nationally significant infrastructure; develop an Infrastructure Priority List to guide public and private investment; and provide advice on

5 Due to machinery of government changes after the election in August 2010, the DITRD LG is now the Department of Regional Australia, Regional Development and Local Government (DRARD LG).

6 The \$6.5 million budget allocated to the Office of the Infrastructure Coordinator is required to meet any budget deficits of the Major Cities Unit. Department outputs are appropriated as a single amount for each entity, such that the \$7.5 million per annum annual funding for the Office of the Infrastructure Coordinator (including the Major Cities Unit) is able to be used to fund any departmental expenditure in the Department of Infrastructure, Transport, Regional Development and Local Government. In this context, corporate overheads for 2009-10 are expected to be some \$1.876 million.

regulatory reforms that can improve the utilisation of infrastructure networks. In developing the Infrastructure Priority List, Infrastructure Australia will assess projects in terms of specific goals, such as, meeting water and energy needs; traffic congestion in our major cities; efficiently moving freight from regional areas to our ports; and meeting the challenge of climate change.⁷

2.8 The May 2008 Budget Papers also included a statement focussing on the scope for improved policy and institutional frameworks for infrastructure investment, and investment in skills and training, as these were seen as areas where there was significant scope to lift Australia's productive capacity. Of direct relevance to the work of Infrastructure Australia, in this statement, the Government:

- recognised that, where governments invest in infrastructure assets, it is essential that they seek to achieve maximum economic and social benefits, determined through rigorous cost-benefit analysis including evaluation and review;
- stated that only public infrastructure projects which at least meet a minimum benchmark social rate of return – determined through rigorous cost-benefit analysis, including evaluation and review – should be funded, and relative social rates of return above the minimum benchmark should be used to prioritise the funding of projects;
- committed to efficient public infrastructure investment through the development of coordinated, objective and transparent processes for decision-making based on thorough and rigorous cost-benefit analysis. Key elements of such an approach were seen as including decision-making based on rigorous cost-benefit analysis to ensure the highest economic and social benefits to the nation over the long-term and a commitment to transparency at all stages of the decision-making process; and
- outlined that Infrastructure Australia had been established to improve processes around the assessment of infrastructure investment decisions. Specifically, the Budget Papers stated that:
 - ⇒ To improve processes around the assessment of infrastructure investment decisions, the Australian Government established Infrastructure Australia to advise governments on nationally significant infrastructure.

7 Budget Paper No. 2 2008-09, *Budget Measures*, circulated by The Honourable Wayne Swan MP, Treasurer of the Commonwealth of Australia and The Honourable Lindsay Tanner MP, Minister for Finance and Deregulation of the Commonwealth of Australia for the information of Honourable Members on the occasion of the Budget 2008-09, 13 May 2008, p. 266.

Infrastructure Australia's advice will be based on rigorous analysis of the costs and benefits of various infrastructure proposals. Infrastructure Australia will identify strategic investment priorities and policy and regulatory reforms to facilitate timely and coordinated delivery of infrastructure investments of national importance between all levels of government and industry. Infrastructure Australia's immediate priority is to complete a National Infrastructure Audit by the end of 2008, and develop an Infrastructure Priority List for COAG consideration in March 2009. It is also to develop best practice guidelines for Public Private Partnerships for COAG consideration by October 2008.⁸

- 2.9 Decisions about whether to invest in projects are taken by governments and industry, having regard to the advice of Infrastructure Australia, amongst others.

Conduct of the First National Infrastructure Audit and Development of the First Infrastructure Priority List

- 2.10 The first Infrastructure Priority List was originally to be completed by March 2009, for consideration by the Council of Australian Governments (COAG).⁹ It had been envisaged that development of the Priority List would be informed by the outcomes of the first National Infrastructure Audit, due to be completed by December 2008. However, following the onset of the global financial crisis, COAG brought the timeframe for completion of the first Priority List forward to December 2008, to be due at the same time as the completion of the first Audit.¹⁰ In bringing forward the due date for the first Priority List, COAG noted that the Audit and Priority List were to be provided in the form of an 'interim' report. The original COAG deadline of March 2009 was retained for the completion of a 'final' Priority List.

8 Budget Paper No. 1 2008-09, *Budget Strategy and Outlook*, circulated by The Honourable Wayne Swan MP, Treasurer of the Commonwealth of Australia and The Honourable Lindsay Tanner MP, Minister for Finance and Deregulation of the Commonwealth of Australia for the information of Honourable Members on the occasion of the Budget 2008-09, 13 May 2008, pp. 4-13.

9 COAG Meeting Communique, 26 March 2008.

10 COAG Meeting Communique, 2 October 2008.

2.11 The truncation of an already tight timetable added to the challenges faced by Infrastructure Australia in conducting the first National Infrastructure Audit and in developing the first Infrastructure Priority List. In particular:

- this was the first time a non-sector specific list of priority infrastructure projects was to be prepared at the Commonwealth level such that the List published in December 2008 included infrastructure projects in the transport, energy, telecommunications, water and health sectors; and
- the Office of the Infrastructure Coordinator was required to develop and implement its own administrative arrangements and make the necessary staff and advisory appointments for its operations concurrently with conducting the National Infrastructure Audit, developing the Priority List and preparing and publishing national Public Private Partnership Guidelines.

2.12 The COAG deadline of December 2008 was met, with advice on the Audit results and a draft Interim Priority List being provided to the Minister on 5 December 2008. The Audit results and an Interim Priority List of 94 projects were publicly released on 19 December 2008 in a report titled *A Report to the Council of Australian Governments*. In respect to the Interim Priority List of 94 projects, the report stated that:

In order to finalise the Infrastructure Priority List, Infrastructure Australia proposes to:

- subject the data underpinning the assessment of strategic fit to further detailed scrutiny;
- request the development of comprehensive economic analysis of selected projects, where only a rapid economic analysis is available at this stage;
- ask submitting organisations to provide comprehensive economic analysis of specified projects immediately, if currently available;
- request and scrutinise the detailed demand modelling underpinning the projects; and
- subject the economic modelling methodology to further scrutiny.¹¹

2.13 A Final Priority List was released by the Minister on Tuesday 12 May 2009¹² within a document titled *National Infrastructure Priorities*:

11 Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 72.

12 The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Investing in the Nation's Infrastructure Priorities*, Media Release, 12 May 2009.

Infrastructure for an economically, socially and environmentally sustainable future. Specifically the document stated that:

- nine 'priority' projects had been identified and should be considered for funding from the Building Australia Fund (together with a tenth project, being the Ipswich Motorway); and
- 28 'pipeline' projects were considered to show potential but further project development and analysis was required before Infrastructure Australia considered it would be able to make a funding recommendation to the Australian Government.

2.14 A key aspect of the Infrastructure Australia analytical framework for the Infrastructure Priority List was the development of a staged assessment process to prioritise between investment proposals, drawing from international and nationally-based practices and research. Of note was that the published methodology outlined that objective cost-benefit analysis (through Benefit-Cost Ratios or BCRs) would be used as the 'primary driver' of decision-making but they were not the only consideration. Consistent with the published methodology, a structured approach was planned by the Office of the Infrastructure Coordinator to combine the economic appraisal of a project's BCR with its assessment of each candidate project's 'strategic fit' in order to identify those projects worthy of further consideration (at the Interim Priority List stage) and, subsequently, to be included on the Final Priority List.

The ANAO Audit

Audit objectives and scope¹³

2.15 In November 2008, the Infrastructure Coordinator wrote to the Auditor-General inviting an independent assessment of the integrity and robustness of the processes that had been adopted in:

- undertaking the first National Infrastructure Audit; and
- developing the first Infrastructure Priority List.

2.16 The Auditor-General agreed to this request as it was consistent with the published audit strategy for the Infrastructure, Transport, Regional Development and Local Government portfolio. The objective for the

13 The following information is taken from Audit Report No. 02 2010-11, pp. 18-19.

Australian National Audit Office (ANAO) performance audit was to assess the effectiveness of the conduct of the first National Infrastructure Audit and development of the Infrastructure Priority List, with particular emphasis on:

- the submissions process and the methodology used to assess submissions;
- the overall conduct of the Audit process;
- the formulation of the Interim and Final Infrastructure Priority Lists; and
- the provision of advice and recommendations to the Government.

2.17 Audit work originally commenced in March 2009 but was put on hold in late June 2009 in order to respond to a request from the then Prime Minister for a performance audit of a range of matters relating to representations to the Treasury regarding finance arrangements for car dealers. Audit work re-commenced in August 2009.

Overall audit conclusion

2.18 The ANAO made the following overall audit conclusion:

Infrastructure Australia was established to improve the quality of infrastructure planning and investment strategy, and to identify those investments expected to make the biggest impact on Australia's economic, social and environmental goals for least cost to the taxpayer. Accordingly, it is a goal of Infrastructure Australia that infrastructure funding decisions will be taken following careful planning and rigorous assessments that are based on sufficient evidence.

Consistent with sound practice, Infrastructure Australia published guidance on its audit framework and on its prioritisation methodology, although the prioritisation methodology was released relatively late in the submissions process due to a range of demands on the Office at the time.

The published National Infrastructure Audit framework was sound. In conducting the Audit, the Office of the Infrastructure Coordinator relied on a range of material, although the short time available to conduct the Audit meant that most reliance was placed on submissions received from the States and Territories. The Audit identified a range of 'challenges' at the national and

location-specific levels and Infrastructure Australia formulated seven themes in response to these challenges.

Infrastructure Australia's methodology provided a robust framework for the development of the Interim and Final Infrastructure Priority Lists. This was reinforced by the Office of the Infrastructure Coordinator taking a rigorous approach to assessing candidate projects including by: scrutinising the claims made by proponents in their submissions; seeking further information where it was needed; and engaging advisers to assist it in deciding whether the BCR submitted by the proponent could be relied upon, or required moderation.¹⁴

The Interim Priority List, published in December 2008, comprised 94 projects. During November 2008, these 94 projects being recommended by the Office of the Infrastructure Coordinator, with 28 projects being recommended by the Office of the Infrastructure Coordinator as meriting further consideration. Consistent with its statutory role, the Council (with the support of the Infrastructure Coordinator) took a different perspective, and included all 94 shortlisted projects on the Interim Priority List. This decision, and its reasons, were not documented in the records of the relevant Council meeting. In June 2010, the Chair of the Infrastructure Australia Council informed ANAO that the Council and the Infrastructure Coordinator had agreed that further information should be requested from all 94 projects to allow for:

- additional evidence to come forward before the original deadline for the completion of the Final Priority List; and
- the Office of the Infrastructure Coordinator's assessment to be updated given the initial assessment by the Office of the Infrastructure Coordinator reflected the available information and time available for assessment.

Further information was provided in respect to some projects, and some project assessments were updated but, in the main, the December 2008 request to proponents of all 94 projects on the Interim Priority List that they provide further information was unsuccessful in significantly improving the information available to inform the development of the Final Priority List.

...

14 In particular, the analysis examined the robustness of the demand forecasts, the robustness of the proponent's costing, key methodological questions and benchmarked the figures used by the proponent.

The Final Priority List was published in May 2009. It comprised:

- nine 'priority' projects that had been assessed as meeting the tests outlined in the published Prioritisation Methodology, including having a BCR greater than 1 such that the project offered net economic benefits; and
- 28 'pipeline' projects, largely comprising projects which either had not submitted a BCR for the Office of the Infrastructure Coordinator's evaluation, or where the Office of the Infrastructure Coordinator's evaluation had identified shortcomings in the BCR.¹⁵

2.19 The ANAO found that the nine priority projects had been selected using the criteria in the published Prioritisation Methodology but that the 28 pipeline projects had not. In particular, the 28 pipeline projects had not 'demonstrated their economic viability' or 'robust delivery mechanisms that would ensure they could be successfully implemented'.¹⁶ Further, the ANAO found that 'there was no clear record maintained of the reasons' for the Council's decisions to include or exclude projects.¹⁷

2.20 The ANAO found that the approach taken to developing the Final Priority List differed significantly from that taken to developing the Interim Priority List. Although the Infrastructure Coordinator had proposed a similar process, the Council itself took the lead in guiding the evaluation process. In consequence no evaluation report recording the evaluation process was prepared by the Infrastructure Coordinator. Instead the minutes of Council meetings were relied on to provide information regarding the decision making process and the ANAO found that these were an inadequate record:

... the primary records of the development of the List were the papers submitted to the Council meetings and the meeting Minutes. ... However, Council meeting Minutes often did not record when it was decided to include projects on the Final Priority List or why. Rather, the best record of the evolving Final Priority List was the various drafts of the List circulated to Council members prior to and following the meetings.¹⁸

2.21 The ANAO noted that once it has published its Priority List, the Infrastructure Council 'does not have a role to play in allocating funding for infrastructure projects'.¹⁹ Rather, this is the responsibility of the

15 Audit Report No. 02 2010-11, p. 21.

16 Audit Report No. 02 2010-11, p. 22.

17 Audit Report No. 02 2010-11, p. 22.

18 Audit Report No. 02 2010-11, p. 32.

19 Audit Report No. 02 2010-11, p. 22.

Government and in this case the ANAO found that the Government provided funding for seven of the priority projects and six of the pipeline projects in the May 2009 Budget and funding for a further two pipeline projects in the May 2010 Budget.²⁰

2.22 The ANAO acknowledged that Infrastructure Australia has the responsibility for ‘developing Lists that prioritise Australia’s infrastructure needs’ and that that Council has the ‘capacity to look beyond the initial information submitted to it by project proponents and assessments prepared for it by the Office of the Infrastructure Coordinator’.²¹

2.23 However, the ANAO was critical of the departure from the criteria set out in the published Prioritisation Methodology, particularly with regard to the distinction between priority and pipeline projects.²² The ANAO advised that, in future, assessment criteria for both categories should be clearly set out and the reasons for decisions documented:

Recognising the value to long term infrastructure planning from the development and ongoing update of a pipeline of nationally significant projects, there would be benefit in Infrastructure Australia setting out its methodology more clearly to inform project proponents and other stakeholders of its approach. In addition, there would be benefit in better records being made of the reasons for Council decisions on the composition of project Priority Lists given the significance of the advice being provided and Infrastructure Australia’s goal of promoting evidence-based public investment decisions.²³

ANAO recommendations

Table 2.1 ANAO recommendations, Audit Report No. 02 2010-11

1.	ANAO recommends that Infrastructure Australia promote greater transparency over the development of future Infrastructure Priority Lists by maintaining records that clearly outline when decisions are taken to include projects on the List, and the reasons for their inclusion.
Infrastructure Australia response: <i>Agreed</i>	

²⁰ Audit Report No. 02 2010-11, p. 22.

²¹ Audit Report No. 02 2010-11, pp. 22-23.

²² Audit Report No. 02 2010-11, p. 23.

²³ Audit Report No. 02 2010-11, p. 23. Note that under the legislative arrangements, the Council was empowered to decide which projects should be included on the Final Priority List, and there was no requirement for the Council to document the nature and extent of any inquiries undertaken, or to record the reasons for decisions taken.

2. In light of the important role Infrastructure Australia seeks to play in promoting best practice infrastructure planning and decision-making, ANAO recommends that future prioritisation processes include information in the published guidance on the different criteria that will be applied to discriminate between priority projects that are ready to proceed and those that exhibit potential but require further development before being considered for possible funding.

Infrastructure Australia response: Agreed

3. ANAO recommends that Infrastructure Australia, where reporting the results of future infrastructure project prioritisation processes, provide clear advice on:
- (a) the relative priority of projects recommended for funding consideration having regard to the results of its appraisal of their economic merits and other factors taken into account in the prioritisation process;
 - (b) the level and form of Commonwealth funding it recommends for priority projects that are ready to proceed, together with any conditions it suggests should be attached to this funding; and
 - (c) any other projects it would support being considered for planning and/or design work funding.

Infrastructure Australia response: Agreed to part (a) and (c) and agreed with qualification with part (b). In respect to part (b), Infrastructure Australia commented that:

While we agree that making the case for public funding and its exact form is important, the split between jurisdictions will be influenced by a wide variety of factors. Funding is obviously a matter for the Government to decide taking into account these factors in considering competing budget priorities.

The Committee's review

- 2.24 The Committee held a public hearing on Monday 21 March 2011, with the following witnesses:

- Australian National Audit Office (ANAO); and
- Infrastructure Australia.

- 2.25 The Committee took evidence on the following issues:

- data collection;
- national strategic focus;
- National Broadband Network (NBN);
- feedback to unsuccessful applicants;
- Benefit-Cost Ratio (BCR);
- Indigenous participation; and
- implementation of ANAO recommendations.

Data collection

- 2.26 The ANAO found that Infrastructure Australia had not addressed COAG's objectives for the National Infrastructure Audit but instead had identified a range of 'challenges'.²⁴ Infrastructure Australia advised the ANAO that there were a number of reasons for departing from the original objectives of the National Infrastructure Audit including 'considerable gaps in the national systems for collecting, holding and analysing the data used to inform infrastructure investment decisions'.²⁵
- 2.27 The Committee asked Infrastructure Australia if any steps have been taken to improve data collection so as to enable a more comprehensive approach to auditing infrastructure across Australia. The agency informed the Committee that the issue has been raised in a number of discussion papers:

The question of nationally consistent and relevant data for port and for freight are raised in the national ports strategy and land freight strategy discussion paper. The national ports strategy has a series of recommendations regarding publication of data, including forecasts and performance indicators. The land freight strategy discussion paper raised similar matters regarding data and forecasts for the principal land freight routes and nodes in Australia.²⁶

National strategic focus

- 2.28 The Committee heard from the Infrastructure Coordinator, Mr Michael Deegan, that Infrastructure Australia is focussed on developing an overall national infrastructure strategy aimed at improving Australia's economic performance and productivity.²⁷ Mr Deegan told the Committee that the audit review had assisted the agency to more clearly define this aim and put in place a more appropriate assessment process for projects.²⁸ This required a top-down national overview approach to the assessment of

24 Audit Report No. 02 2010-11, pp. 65-66.

25 Audit Report No. 02 2010-11, p. 67.

26 Infrastructure Australia, *Submission* ???, p. [2].

27 Mr Michael Deegan, Infrastructure Coordinator, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 2.

28 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, pp. 2-3.

projects instead of the bottom-up approach originally taken.²⁹ He explained the benefits of the improvements:

With these sorts of issues, over the longer term we can stand back and have a look at how these things might work, then determine which projects are more important than others in terms of long-term economic development, and then to the sorts of issues we have been discussing with the Audit Office about the detail of how those projects may be assessed. I think that the benefit of the process we have had is that we have collectively had a chance to stand back from the process and think of the sorts of economic development the country would be better assisted by.³⁰

- 2.29 The Committee asked Infrastructure Australia what steps it has taken to communicate this strategic overview to state, territory and local governments. Infrastructure Australia told the Committee that all of its reports are available on the agency's website as well as being provided nationally, including to parliaments. In addition the agency has:

... an extensive direct engagement with local and state governments and particularly with industry, and we are seeking to build a collaborative model with each of those players.³¹

- 2.30 The Infrastructure Coordinator provided a number of examples to illustrate the type and level of communication strategies used to engage with various levels of government. Speaking of the national port strategy, he explained:

... we have had the 14 mayors from Townsville all the way up that rail line to Mount Isa engaging in a process with us. They have understood the value of that economic development for the nation and have taken very seriously a master planning project for the next 30 years for the whole of that supply chain, which they hope to conclude in the next nine months or so.³²

- 2.31 The Committee asked if Infrastructure Australia was successfully shifting the vision of local government authorities from their emphasis on road development to a broader understanding of infrastructure development. The agency told the Committee that local governments have responded well and do understand the 'need to think strategically at that higher

29 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 2.

30 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 3.

31 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 4.

32 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 4.

level'.³³ However, Infrastructure Australia acknowledged the difficulties inherent in dealing with the variety of local government structures across the country.³⁴

- 2.32 The Committee asked what steps Infrastructure Australia was taking to ensure the sustainability of the overall infrastructure program. The agency informed the Committee that it attempts to test the sustainability of all projects, engaging with other relevant stakeholders and departments. The Infrastructure Coordinator provided the example of the national port strategy:

Taking a broader view of, for example, our national port strategy around the longer term impact of climate change, the sorts of changes there might be as people like the Insurance Council and others are dealing with ports, people's housing, wind speeds, heat and those sorts of issues. So we have a close relationship with the Department of Climate Change and we had an officer from that department seconded to our organisation for a number of months working with us on those issues.³⁵

National Broadband Network

- 2.33 The Committee inquired, in light of the national focus of the agency, whether or not Infrastructure Australia was involved in the oversight of the Government's National Broadband Network (NBN). Infrastructure Australia acknowledged the importance of the infrastructure project but told the Committee that it has 'not been involved in any of the discussions around cost-benefit analysis' for the NBN.³⁶ Questioned further, the agency maintained that it was a Government decision that Infrastructure Australia should not be engaged in the project.³⁷
- 2.34 As telecommunications is one of the key areas that Infrastructure Australia is obligated to look at, the Committee asked why the agency had not been asked to assess the NBN. Infrastructure Australia told the Committee that the Government had 'already created a process' to deal with the NBN which did not involve the agency.³⁸

33 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 7.

34 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 7.

35 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 8.

36 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 3.

37 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 3.

38 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 8.

- 2.35 The Committee asked Infrastructure Australia if the agency would have been able to contribute expertise to the cost-benefit analysis of the project. Infrastructure Australia reiterated that there were adequate processes in place to carry out this assessment and that the agency's involvement would have created 'unnecessary duplication'.³⁹ Infrastructure Australia added that it is only a small organisation and that its resources were fully committed.⁴⁰

Feedback to unsuccessful applicants

- 2.36 The Committee asked if Infrastructure Australia had provided feedback to unsuccessful applicants. Infrastructure Australia told the Committee that the agency had responded to proponents, explaining requirements for future submissions. Although Infrastructure Australia admitted that some proponents were disappointed in the results, the agency maintains that:

The latest release of our draft reports for the Infrastructure Council back to proponents has meant a fair bit of honest discussion about the sorts of conclusions we have drawn.⁴¹

Benefit-Cost Ratio

- 2.37 The ANAO found that the Prioritisation Methodology developed by Infrastructure Australia to assess projects was based on good practice and provided a 'robust framework for the development of the first Infrastructure Priority List'.⁴² The ANAO noted that the 'primary driver' for assessment evaluation was through the use of the Benefit-Cost Ratio (BCR).⁴³ The Committee asked Infrastructure Australia how the agency applied the cost-benefit analysis to individual projects.
- 2.38 Infrastructure Australia referred the Committee to the revised *Better Infrastructure Decision Making* Guidelines, implemented in October 2010, where the process is explained:

The second stage – economic viability – seeks to establish whether a proposal's economic, social and environmental benefits outweigh its costs to society, in a triple bottom line assessment. The bedrock of this assessment is a traditional, and widely

39 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 9.

40 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 3.

41 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 5.

42 Audit Report No. 02 2010-11, p. 73.

43 Audit Report No. 02 2010-11, p. 74.

understood, monetised benefit-cost assessment, complemented by qualitative assessment of impacts where monetisation is not feasible.

In process terms, independent cost-benefit experts scrutinise submissions to ensure they are robust and comparable, using a standardised pro-forma of 'issues for investigation' prepared by Infrastructure Australia, as well as bringing their own expertise to identify issues in any aspect of the business case.⁴⁴

- 2.39 While acknowledging that the reliance on assessment of the BCR was an acceptable assessment tool for prioritisation of projects, the ANAO found that there were considerable shortcomings in the quality of the BCRs submitted to Infrastructure Australia.⁴⁵ The Committee asked Infrastructure Australia if the revised guidelines had improved the process. The Infrastructure Coordinator told the Committee that there have been improvements:

... we have seen a number of jurisdictions put considerable effort into improving their skills and analytical work, both at the strategic level and then at the project level. Guidelines have been circulated and commented upon by a number of proponents. Again, it is trying to keep the balance between getting the right economic outcome and a process that local councils and others can follow and implement without putting them to unreasonable lengths.⁴⁶

- 2.40 The Committee expressed concern that local government would not have ready access to the expertise required to provide the detailed economic and cost-benefit analysis requested. Infrastructure Australia admitted that this had been an issue for some local government authorities but insisted that it had not had a detrimental effect:

Where we believe there are projects of national economic significance, we will assist them in getting material together or

44 Infrastructure Australia, *Better Infrastructure Decision-Making: Guidelines for making submissions to Infrastructure Australia's infrastructure planning process, through Infrastructure Australia's Reform and Investment Framework*, <http://www.infrastructureaustralia.gov.au/reform_investment/files/Better_Infrastructure_Decision_Making_Guidelines.pdf> viewed 28 April 2011.

45 Audit Report No. 02 2010-11, pp. 91-92.

46 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 3.

give them advice as to particularly strong analysts that they might use. If it is a good enough project they will find a way to do it.⁴⁷

- 2.41 The Committee asked Infrastructure Australia if the emphasis on economic analysis had precluded other considerations, particularly social outcomes. The agency assured the Committee that other considerations were taken into account but reiterated that the need for infrastructure development to fit into a national framework was paramount:

Is it truly of national significance and will increase Australia's economic productivity? And in that process we look at the detail of the cost-benefit analysis of particular projects. But as I indicated earlier, we are keen to see that the projects fit together in a framework.⁴⁸

- 2.42 Infrastructure Australia illustrated the type of broader factors that were taken into consideration in addition to the cost-benefit analysis:

... if you are going to deal with Gold Coast transport issues, how will the light rail hook into the heavy rail, how will that connect into northern New South Wales, what are the issues around the airport, where is that holistic view of what needs to happen at the Gold Coast, and how do those sorts of opportunities then link into the major highway between Sydney and Brisbane, the major rail route and the longer term inland rail connectivity?⁴⁹

Indigenous participation

- 2.43 With regard to social outcomes, the Committee questioned Infrastructure Australia on Indigenous participation in the project and what steps had been taken to ensure equity for Indigenous communities. Infrastructure Australia told the Committee that the agency had identified a number of issues facing Indigenous community access to the program, particularly remote community access.⁵⁰

- 2.44 Infrastructure Australia has been working with the Coordinator-General of Remote Indigenous Services and has received a joint submission from the Western Australia, Northern Territory and Queensland governments addressing road access to some of these communities.⁵¹ To overcome some

47 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 5.

48 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 6.

49 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 6.

50 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 6.

51 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 7.

of these issues the agency is in the process of developing a framework to assess relevant applications:

We are currently developing a framework to try to deal with those issues and the social equity side of that. There is a lot of work going on, again as you would be aware, about the local town planning issues associated with water quality, energy supply and local access. We are working with a number of those communities and their state governments around the road access at a regional level – they are quite difficult issues that are before us.⁵²

Implementation of ANAO recommendations

2.45 The ANAO was critical of the lack of evidence of the reasons for decisions regarding the inclusion or exclusion of projects from the Final Priority List. The ANAO recommended that record maintenance be improved to ensure that these decisions are fully documented.⁵³ The Committee asked Infrastructure Australia what steps had been taken to implement this recommendation.

2.46 The agency told the Committee that, despite holding a different view on the issue to the ANAO, Infrastructure Australia is addressing the recommendation:

... we are making sure that the suggestions of the Audit Office are included in our analysis and final reports. So we will comply with that. There is a difference of view as to how much detail is required but we are seeking to be transparent in our process.⁵⁴

2.47 The Committee acknowledged that Infrastructure Australia had addressed the recommendations of the audit report but asked if there were still difficulties in the practical implementation of any of the recommendations. Although Infrastructure Australia admitted that it had been a rigorous undertaking, the agency claimed it had adopted and implemented the recommendations and confirmed the exercise had resulted in a better performance for the agency.⁵⁵

2.48 The Committee asked if the agency had taken any steps to improve its processes beyond the requirements of the ANAO recommendations. The

52 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 7.

53 Audit Report No. 02 2010-11, pp. 121-122.

54 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 8.

55 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 6.

agency told the Committee it had taken the opportunity to work with the ANAO to address a number of smaller administrative issues that had been brought to the agency's attention. The Infrastructure Coordinator drew attention to the more comprehensive feedback being provided to applicants:

We have, in this latest round of assessing projects, circulated our draft advice and recommendations to each of the proponents so that on this occasion they have an opportunity to respond and to consider the sorts of issues that we have raised with them.⁵⁶

Committee comment

- 2.49 The Committee understands the need for a focus on a national infrastructure strategy and is satisfied that Infrastructure Australia is communicating its strategy to relevant stakeholders, including state, territory and local governments.
- 2.50 A number of Committee Members expressed concern regarding the lack of involvement of Infrastructure Australia in the assessment and oversight of the National Broadband Network project. Considering that the NBN is possibly Australia's largest current infrastructure project and that Infrastructure Australia was set up to advise the Government on nationally significant infrastructure projects, several Committee Members feel that it is necessary for Infrastructure Australia to have the opportunity to consider the project.
- 2.51 While the Committee accepts the Auditor-General's assurance that Infrastructure Australia has implemented the ANAO recommendations, it remains concerned that the decision making process is not as transparent as it should be. In particular, the Committee disagrees with Infrastructure Australia's qualified answer to recommendation 3 (b) and suggests that it is within the agency's remit to provide clear advice on the level of funding and necessary conditions it recommends for priority projects. Indeed the Committee believes that best practice would suggest an obligation for Infrastructure Australia to provide such information, especially given the strong statements related to this point in the May 2008 Budget Statements.
- 2.52 The Committee is strongly concerned by the ANAO's findings that the published Prioritisation Methodology was not followed in all cases and that the decisions on the composition of project priority lists taken by the
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56 Mr Deegan, Infrastructure Australia, *Committee Hansard*, Canberra, 21 March 2011, p. 2.

Infrastructure Australia Council were not transparent. The Committee notes that although not formally obligated to do so the Council, and the Office of the Infrastructure Coordinator, should have clearly documented the reasons for decisions taken regarding the Priority List.

- 2.53 The Committee recognises the issues facing Indigenous communities regarding access to the program and is concerned about the equity implications. The Committee notes the cooperative approach being undertaken by Infrastructure Australia to overcome some of these issues and encourages the agency to complete the development of the Indigenous participation framework as soon as possible.

Recommendation 1

The Committee recommends that in future Infrastructure Australia provide clear and consistent advice on the level of funding and necessary conditions it recommends for priority projects.

