

Chapter 2

Issues

2.1 The committee received evidence from academics, state and territory government representatives, industry representatives and the Commonwealth Department of Infrastructure and Regional Development. All were broadly supportive of the measures proposed in the bill, approving of measures designed to increase the transparency and rigour of IA's assessment of project proposals,¹ and its ability to effectively operate as an independent advisory body.²

2.2 Professionals Australia considered the bill 'a firm step in the right direction' towards ensuring 'proper independent assessment' of infrastructure proposals.³ The South Australian Department of Planning, Transport and Infrastructure agreed with the general principles underpinning the bill.⁴ Similarly, representatives of the Queensland government endorsed the bill, noting that it 'aligns strongly' with the state's commitment to infrastructure management.⁵

2.3 However, while broadly supportive of the policy intent, there was some confusion about the details and practical effect of the amendments to the cost benefit analysis requirements.⁶ Submitters also offered suggestions to improve implementation of the proposed amendments,⁷ and held strong views about IA's cost benefit analysis methodology.⁸

A cost benefit analysis for every project proposal?

2.4 There is strong support throughout the submissions for cost benefit analyses to be conducted for nationally significant infrastructure project proposals that would entail Commonwealth funding of at least \$100 million. This support was shared by representatives of state governments,⁹ industry representatives,¹⁰ and academia.¹¹

1 See, for example, ASBEC, *Submission 8*, p. 1.

2 See, for example, Bus Industry Confederation, *Submission 4*, p. 1.

3 Professionals Australia, *Submission 6*, p. 3.

4 South Australian Department of Planning, Transport and Infrastructure, *Submission 7*, p. 1.

5 Queensland Department of State Development, Infrastructure and Planning, *Submission 2*, p. 1.

6 See, for example, Bus Industry Confederation, *Submission 4*, p. 2.

7 Professionals Australia, *Submission 6*, pp 3—4.

8 See, for example, Northern Territory Government, *Submission 9*, p. 2.

9 See, for example, Queensland Department of State Development, Infrastructure and Planning, *Submission 2*, p. 1.

10 Professionals Australia, *Submission 6*, p. 3.

2.5 The South Australian Department of Planning, Transport and Infrastructure 'acknowledge[d] the important role played by cost-benefit analysis in deciding whether to proceed with the proposed investment'.¹² Professor Peter Newman AO and Mr James McIntosh argued that cost benefit analyses would 'lead to better decision-making', and noted, with approval, that the proposed amendments would expand the range of project proposals for which a cost benefit analysis would be required.¹³

2.6 However, submitters questioned whether the proposed amendments would make it compulsory for cost benefit analyses to be conducted for all nationally significant infrastructure project proposals involving funding of at least \$100 million. While broadly supportive of the legislation, Professionals Australia called for further amendments to ensure that Infrastructure Australia '[b]e empowered to require cost benefit analysis for all Federal government infrastructure capital expenditure over \$100 million'.¹⁴

2.7 Submitters also questioned whether the bill would require IA to evaluate and undertake a cost benefit analysis of project proposals before the Commonwealth could commit to fund an infrastructure proposal.¹⁵ A number of submitters strongly argued that the efficient administration of Australia's infrastructure resources requires IA to conduct cost benefit analyses before any Commonwealth funds are committed to infrastructure projects.¹⁶ Professionals Australia called for amendments to the bill to ensure that IA would:

[b]e in a position where cost benefit analyses are conducted and reviewed prior to funding decisions being made and have their infrastructure project list held up as the primary pathway for project selection.¹⁷

2.8 These issues were the subject of debate during the bill's consideration before the House of Representatives. Non-government amendments were put forward, but not adopted, to introduce a 'uniform process' across all project proposals that would involve at least \$100 million of Commonwealth funding.¹⁸ Specifically, the amendment contemplated that IA be required to publish cost benefit analyses for *all* proposals involving capital expenditure of \$100 million or more.¹⁹ In opposing the

11 Professor Peter Newman AO and Mr James McIntosh, *Submission 1*, p. 1.

12 South Australian Department of Planning, Transport and Infrastructure, *Submission 7*, p. 1.

13 Professor Newman and Mr McIntosh, *Submission 1*, p. 1.

14 Professionals Australia, *Submission 6*, p. 3.

15 See, for example, Bus Industry Confederation, *Submission 4*, p. 2.

16 See, for example, Andrew Herrington, *Submission 3*, p. 1.

17 Professionals Australia, *Submission 6*, pp 3—4.

18 The Hon. Anthony Albanese MP, *House of Representatives Hansard*, 24 September 2014, p. 10340.

19 The Hon. Anthony Albanese MP, *House of Representatives Hansard*, 24 September 2014, pp 10340—10341.

proposed non-government amendments, the Deputy Prime Minister, the Hon. Warren Truss MP, confirmed advice provided in the explanatory memorandum to the bill, and the Minister's second reading speech, that the amendments were designed to 'ensure that cost benefit analyses inform the evaluation of proposals under the IA Act'.²⁰ The Minister informed the House:

It is certainly the government's intention that all projects for which we are contributing funding of \$100 million or more will be subject to Infrastructure Australia's approval. The exception to this is Defence – we have made that quite clear right through the process – but the intention is that Infrastructure Australia will have the ability to make its own decisions and that every project will be submitted to it...The purpose of the changes is to make sure that Infrastructure Australia can do that in a way that they are ahead of the decision-making process.²¹

Committee view

2.9 Cost benefit analyses are designed to ensure that infrastructure project decisions are made on the basis of the best available evidence. The analyses support the transparent and robust scrutiny of infrastructure proposals. The committee is aware that in developing Infrastructure Plans (IPs) IA takes into account audits, evaluations of project proposals, and the IPL. IPs are the end result of a broader analytical process. It therefore makes sense to relocate the cost benefit analysis provisions to link cost benefit analysis to the IPL rather than Infrastructure Plans. This will not detract from the value of Infrastructure Plans. Rather, it will increase their veracity, as the proposed amendments would allow Infrastructure Plans to benefit from the extensive work undertaken by IA to analyse the cost benefits of all project proposals rather than just the ones that are considered potentially suitable for inclusion on a 15 year plan.

2.10 The committee understands submitters' confusion as to whether the proposed amendments would require cost benefit analysis of every infrastructure proposal of national significance that would require federal investment of at least \$100 million. The drafting of the proposed amendments is circuitous. It creates an implicit, incidental requirement to conduct a cost benefit analysis rather than an express direction for cost benefit analyses to be conducted in every case. The amendments would not expressly confirm that cost benefit analyses are a routine part of project analysis. Rather, the proposed amendments would make cost benefit analyses a threshold requirement for a project to be proceed to the next stage, that is, inclusion on an IPL.

20 The Hon. Truss MP, Deputy Prime Minister, *House of Representatives Hansard*, 4 September 2014, p. 9717; Infrastructure Australia Amendment (Cost Benefit Analysis and Other Measures) Bill 2014, Explanatory Memorandum, p. 1.

21 The Hon. Truss MP, Deputy Prime Minister, *House of Representatives Hansard*, 24 September 2014, p. 10343.

2.11 However, despite the drafting of the proposed amendments, it is clear that the amendments intend to promote robust scrutiny of proposed infrastructure projects. As the Deputy Prime Minister has stated, and as reiterated in the bill's explanatory memorandum, the proposed legislative reforms are intended to ensure that cost benefit analyses inform IA's evaluation of proposals. Furthermore, given Infrastructure Australia's practice of including project proposals that it considers to be nationally significant on the Infrastructure Priority List, it can be assumed that in practice cost benefit analyses would be routinely undertaken. Indeed, as both the Government and submitters to this inquiry have noted, this is currently IA's practice. The proposed amendments would confirm this practice, giving cost benefit analyses a legislative foundation.

2.12 Therefore, the committee is satisfied that, as currently drafted, the bill would result in IA undertaking cost benefit analyses as part of the process of evaluating proposals for nationally significant infrastructure projects that would involve significant Commonwealth expenditure.

2.13 The committee also notes the Government's advice that '[i]t is certainly the Government's intention that all projects for which we are contributing funding of \$100 million or more will be subject to Infrastructure Australia's approval'.²² The object of the bill is to improve transparency. To this end, the bill would establish a framework for not only ensuring that cost benefit analyses are undertaken but that the outcomes of these analyses are available to government and the public.

Cost benefit analysis and IA's capacity to providing early feedback

2.14 One submitter raised concerns with the potential impact of the proposed amendments to the cost-benefit analyses framework on projects at an early stage of development. The South Australian government advised that IA may not undertake cost benefit analyses of proposals that it considers to be in the early stage of development. That is, a proposal may be listed on the Infrastructure Priority List as an 'early stage' project without a cost benefit analysis first being conducted. IA's *Guidelines for making submissions to Infrastructure Australia's infrastructure planning process, through Infrastructure Australia's Reform and Investment Framework* do distinguish between projects in the early stages of development and projects that are more advanced. The guidelines make clear that for less-developed projects less detail is required in the accompanying documentation and information statements. The guidelines advise:

[W]here a submission seeks engagement with Infrastructure Australia as a business case is developed – that is, the initiative is at an early stage of planning - Infrastructure Australia welcomes such engagement and the supporting information should be in accordance with the initiative's stage

22 The Hon. Truss MP, Deputy Prime Minister, *House of Representatives Hansard*, 24 September 2014, p. 10343.

of development and need not necessarily cover all the elements described here.²³

2.15 It was submitted that this process 'has been beneficial in allowing jurisdictions to get an early indication from IA of its assessment of the strategic merits of the proposal'. The South Australian government submitted that if the requirement to conduct a cost benefit analysis of a proposal before it is listed on the Infrastructure Priority List proceeds, 'we suggest a mechanism remain for IA to provide early feedback on the strategic merits of proposals, even before CBA work is undertaken'.²⁴

Committee view

2.16 It is of particular note that cost benefit analyses were undertaken prior to the introduction of the bill. The bill seeks to solidify and enhance an existing process, not to detract from it. The committee understands the importance of early engagement with Infrastructure Australia. It is not the purpose of the bill to limit this engagement. Indeed, it is not clear that the proposed amendments would have this effect. While the bill would prevent a proposal from being included on the Infrastructure Priority List without a cost benefit analysis first being conducted, it would not prevent IA from liaising with proposal submitters during the evaluation process. This would allow the IA to provide early feedback on the strategic merits of proposals before a cost benefit analysis was undertaken. It is suggested the government monitor this issue with Infrastructure Australia, and, if needed, issue ministerial directions under section 6 of the *Infrastructure Australia Act 2008* to clarify that the IA may provide early feedback on projects that are at an early stage. The committee will also monitor this issue.

Cost benefit analyses – methodology and uniformity

2.17 The bill as drafted would allow IA to approve the methodology for preparing cost benefit analyses. However, it would not have total autonomy in developing the methodology. The proposed amendments would require IA to choose a methodology that would allow proposals to be compared. In itself, this requirement is not new but reflects existing requirements under section 5B of the *Infrastructure Australia Act 2008* relating to cost benefit analysis requirements for the proposals in Infrastructure Plans. As previously stated, the bill would not fundamentally change the cost benefit analysis process. The amendments would alter the stage at which the cost benefit analysis process would occur. The Senate has therefore previously approved the IA having the flexibility to determine, subject to the requirement to enable comparisons, the cost benefit analysis methodology.

23 Infrastructure Australia, *Guidelines for making submissions to Infrastructure Australia's infrastructure planning process, through Infrastructure Australia's Reform and Investment Framework*, p. 6, http://www.infrastructureaustralia.gov.au/priority_list/files/Reform_and_Investment_Framework_Guidance_August_2014.pdf, (accessed 10 November 2014).

24 South Australian Department of Planning, Transport and Infrastructure, *Submission 7*, p. 1.

2.18 Submitters held strong views about the evaluation methodology. Several put forward suggestions for what the CBA methodology should include. Transparency, uniformity and stability were key themes explored in submissions.²⁵ The Bus Industry Conference noted that it:

strongly supports the adoption of a single and stable method for evaluation of land transport infrastructure that considers fully the external benefits and costs of infrastructure projects.²⁶

2.19 The organisation advocated for a set methodology to be applied to every proposal, so as to avoid the risk of manipulation²⁷ Other submitters also identified a need for one consistent methodology,²⁸ arguing that consistency across project evaluations is in line with, and is indeed a key feature of, the requirement that the methodology allow projects to be compared.²⁹ While noting the need for uniformity, the Northern Territory Government also maintained that cost benefit analyses must be appropriate for rural and regional Australia as well as urban centres.³⁰

2.20 In addition, submitters called for a whole of government approach, that is, consistency of evaluation methods between Commonwealth organisations and Commonwealth, state and territory bodies.³¹ Representatives of the South Australian Government noted that key aspects of Infrastructure Australia's funding submission requirements differ to those required by the Commonwealth Department of Infrastructure and Regional Development.³² The Bus Industry Conference also submitted that there is a need for a standardised approach to evaluating infrastructure proposals for which Commonwealth funding is sought.³³

2.21 Where mentioned, submitters also shared the view that cross-jurisdictional consistency is required. The Northern Territory Government and the South Australian Government both argued for Infrastructure Australia's methodology to be aligned with guidelines in other jurisdictions.³⁴ Representatives of the Northern Territory Government submitted:

25 See, for example, Mr Andrew Herrington, *Submission 3*, p. 1.

26 Bus Industry Confederation, *Submission 4*, p. 2.

27 Bus Industry Confederation, *Submission 4*, p. 2.

28 See, for example, Northern Territory Government, *Submission 9*, p. 2.

29 Professionals Australia, *Submission 6*, p. 2.

30 Northern Territory Government, *Submission 9*, p. 2.

31 ASBEC, *Submission 8*, p. 1.

32 South Australian Department of Planning, Transport and Infrastructure, *Submission 7*, p. 1.

33 Bus Industry Confederation, *Submission 4*, p. 3.

34 South Australian Department of Planning, Transport and Infrastructure, *Submission 7*, p. 1; Northern Territory Government, *Submission 9*, p. 2.

[i]t would be entirely appropriate for Infrastructure Australia to take the national lead, working with Federal, State and Territory governments, to develop the CBA into a single national project appraisal methodology that is accepted and supported by all jurisdictions.³⁵

2.22 This view was shared by representatives of private industry. The Australian Sustainable Built Environment Council called for a 'whole-of-government approach to project appraisals, supporting consistency and best practice across the states and territories.' The council further submitted that a cross-government cost benefit analysis framework should include 'clear recommendations and next steps...to support its implementation'.³⁶

Committee view

2.23 As noted, the bill would not change the current position that Infrastructure Australia develop, and review, its cost benefit analysis methodology. It is fundamental to IA's transparency and independence that it establishes the method of evaluating the cost-benefits of a proposal. However, the committee recognises the burden that jurisdictional differences can place on private industry. The committee strongly encourages IA to take account of the concerns raised by submitters to this inquiry in determining processes and methodologies to make the project evaluation process more transparent and accessible.

Recommendation 1

2.24 The committee recommends the bill be passed in its current form.

Senator the Hon Bill Heffernan
Chair

35 Northern Territory Government, *Submission 9*, p. 2.

36 Australian Sustainable Built Environment Council, *Submission 8*, p. 1.

