

SUBMISSION TO THE INDEPENDENT REVIEW OF INFRASTRUCTURE AUSTRALIA

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Introduction

In this Submission, we focus upon what we believe is the determining issue in the Request for Submissions: the role to be played by Infrastructure Australia going forward.

A revised mandate implies that powers and responsibilities and the capabilities of the organisation and the board will also need to change to give effect to the more focussed organisational remit. The mandate is therefore the defining issue.

1. The role required of Infrastructure Australia in 2022 and beyond can build upon the role it has played from the time of its establishment in 2008.

Australia's cities and region and remote areas need economic and social infrastructure to be productive, prosperous, and liveable.

Economic infrastructure provides the physical structures and facilities that organise and make productive our communities, large and small. It includes roads and transport systems, energy, water, and telecommunications networks.

Social infrastructure includes facilities and services that also deliver productivity and provide quality of life to citizens - such as schools and universities, hospitals, social housing, cultural facilities, green spaces, and sporting facilities.

Infrastructure Australia was set up to address nationally significant infrastructure in a number of ways, described in its Act. National significance is linked in the Act to "the material improvement of national productivity."

When Infrastructure Australia was established in 2008, there were two imperatives that drove the work program.

The first imperative was to do a stocktake or a baselining of national infrastructure requirements.

"Infrastructure Australia's immediate task will be to undertake a national infrastructure audit to determine the capacity and condition of nationally significant infrastructure, including in the areas of water, energy, transport, and communications, and in so doing it will consult widely, including with the owners and operators of existing infrastructure assets.

The audit will identify gaps, deficiencies, impediments, and bottlenecks across these important sectors of the national economy as well as take into account expected future demand. This information will inform the development of the infrastructure priority list to guide future investment decisions.”

- Minister Albanese in the Second Reading Speech introducing the 2008 enabling legislation.

In other words, an audit was needed to identify what national infrastructure was there, what was missing, particularly with an eye to the future, and the blockages to be addressed to effect better infrastructure outcomes.

This audit, with a 15-year time horizon, has been repeated on a four-year cycle, most recently in 2019. The Audit consumes considerable resources in order to provide the empirical support for the Australian Infrastructure Plan and the Infrastructure Priority List, to encourage bids from the States for projects named on that List and to test proposals from the List.

Initially, its emphasis was on economic infrastructure – transport, energy, water, and telecommunications - skewed to roads and transport. The last Audit and the Plan which followed it in 2021 has rethought this approach and broadened thematically to become more citizen centric.

The most recent Plan is clearly more focused on the macro challenges that provide a context not considered to the same extent in Infrastructure Australia’s previous work.

A second imperative was the need to improve the processes and indeed the governance over major infrastructure investment decisions.

It was recognised that an accepted and transparent methodology was needed so that public infrastructure projects met an acceptable social rate of return.

Business Case assessments :

A key feature of the work of Infrastructure Australia has been the development and implementation of an independent assessment process for the evaluation of investments on the Infrastructure Priority List, that drew upon accepted economic practice and research. This gave rise to the published methodology based on cost benefit analysis, or Benefit-Cost Ratios (BCRs).

The threshold Commonwealth investment that triggered an IA BCR assessment was \$100m until January 2021, when it was raised to \$250m. This move considerably reduced IA’s day-to-day assessment caseload.

IA has supported the creation and the maturing of the capabilities of state based “i- bodies” and has transferred the skills to determine the BCR for business case proposals seeking Commonwealth co-investment to those states’ infrastructure bodies and infrastructure-responsible agencies.

While it is well documented that many large Commonwealth and State infrastructure projects are politically committed *before* “passing” their IA BCR assessment¹, nevertheless the evolution of this

¹ Of 32 projects larger than \$500m committed to since 2016, eight had business cases published or assessed by an infrastructure body at the time of commitment and among the 22 that received federal funding, six had business cases published or assessed by IA at the time of commitment IA at the time of commitment. (Grattan Institute)

methodology and its uptake by the States provided a common language to assess the value of projects at the point of investment.

The capabilities for examining each case and should also arguably rest in the Commonwealth body allocating the funding.

Post-implementation evaluation:

Arguably the next stage in the evolution of IA's assessment framework, is to gather the political will to use it as a "look back and learn" tool for post-implementation evaluation. Did the assumptions of projects at their inception actually bear fruit? What can be done better? This discipline of business case review is well established in the private sector and seems to largely fall to the Offices of Public Audit in the public sector, although post-implementation review does now usually occur at the State level and checks and balance are provided by the spectre and reality of the attention of the various Auditors General.

In this scenario, the role of Infrastructure Australia would not be to "mark the homework" of each state or territory business case, but to advise on:

- approaching nation-wide challenges of which infrastructure is a critical element,
- assessment methodology,
- or on improvements to overall governance in the area of public funding of infrastructure.

2. Going forward, in what areas can Infrastructure Australia be most effective?

Infrastructure Australia has an ongoing role to play in the co-ordination of large scale and cross sectoral planning.

The sentiment of the Second Reading Speech still holds true:

"Nation-building requires the cooperation of all Australian governments—particularly in a federal political system like ours, with its divided responsibilities—as well as the involvement of all sectors of the economy, both public and private.

Put simply, nation-building requires coordinated solutions."

(a) The cross-sectoral reform agenda

Now, fourteen years on, Infrastructure Australia can build on this work and provide more focussed advice to Government on the major infrastructure challenges and the reforms required to meet them.

Going forward, the overwhelming challenges go to:

- the ability of our infrastructure planners at all levels of government to respond to the impacts of climate change,
- the effective promotion of, and adaption to, decarbonisation,
- improving waste and recycling in the circular economy,
- overcoming structural barriers to the efficient creation of transport and logistics solutions to meet the future needs of the economy, and

- ensuring that public investment in digital communications fills known gaps in terms of coverage and inclusion.

Hence, IA's reform agenda, identified in the Plan, should become the centrepiece of its work. The 2021 Audit identified 29 areas for reform. <https://www.infrastructureaustralia.gov.au/2021-australian-infrastructure-plan-implementation-and-progress>.

Previous audits have also made recommendations for reform. Reform initiatives recommended by IA are almost inevitably complex and, in many cases, long term, involving various levels of government and enterprise. Progress on many identified reforms over the previous five years has been non-existent or glacial.

A new role for IA could be, with COAG, to systematically prioritise and progress the recommendations seen to be the most significant in terms of national productivity and report on them on an annual basis.

IA can harness its research capabilities to identify the inputs that will drive to the strategic goals using an Infrastructure Theory of Change methodology.

- For example, a decarbonisation goal may benefit from advice on the national co-ordination of Electric Vehicle Charging Stations

(b) City Deals co-ordination

A successful example of this has been the co ordination of Federal, State and Local Governments in establishing plans for the infrastructure of the future via City Deals.

City Deals are a key implementation tool for all levels of government to work together to plan and deliver transformative outcomes for Australian cities.

City Deal projects are characterised by well-orchestrated planning and co investment that ensures that economic and social infrastructure is built into the overall city plan with consequential nationally significant outcomes.

IA should have a seat at the City Deals tables. It may assess City Deal business cases and advocate best practice from other programme implementations, from Australia or overseas.

City Deals map a systemic approach to urban and regional planning. Business case assessments for individual projects in the City Deal programme are often too small a lens in which to view the transformational potential of a connected and long term, inclusive approach.

IA has the capacity to link large scale City Deal programs with the needed cross-sectoral reforms. The significant investment governments continue to make in the Western Sydney City Deal, for example, could benefit from continuous independent assessment and review.

(c) Economic infrastructure versus Social Infrastructure

Although, Infrastructure Australia was established to advise on economic infrastructure, large scale investment decisions need to take social infrastructure into account . This is well evidenced in City Deals which by definition have nationally significant outcomes and include social infrastructure elements.

The 2021 Infrastructure Australia Plan recommended that the Commonwealth Government should develop an economic valuation framework for social infrastructure. Because social infrastructure’s contribution to national productivity largely goes unrecognised, Infrastructure Australia recommended that it should lead this work. <https://www.infrastructureaustralia.gov.au/2021-australian-infrastructure-plan-implementation-and-progress/recommendation-8.3>

We would be reluctant to advise against a wholesale descope of social infrastructure (Contrast the mandate for the National Infrastructure Commission below). We endorse the trend to look systematically at the impact of investment decisions on the quality of life of Australian citizens in the planning of cities and regions.

(d) Fostering collaboration between levels of government and industry to attack “wicked problems”

We would argue that Infrastructure Australia has played an important role in advising COAG on skills and capacity gaps and other factors holding back the roll out of the national infrastructure pipeline. <https://www.infrastructureaustralia.gov.au/publications/2021-infrastructure-market-capacity-report>

This will be an on-going issue.

(e) Governance best practice in the use of public funds

In the debates over the use of BCR to set minimum standards for large scale government infrastructure investment decisions, it is rarely suggested that there be a statutory requirement that *all* investments over \$250 million undergo a BCR test by Infrastructure Australia, as an independent body.

The practical reality is that major allocative decisions – like the siting of airports or transport links in Western Sydney - are inherently political decisions.

However, on the spectrum of possibilities ranging from politically acceptable to outright illegal, many infrastructure investment decisions are made which are unacceptably politicised and not transparent but are unlikely to be deemed technically corrupt under an ICAC-type model.

These systemic issues can structurally hold back better long-term infrastructure planning.

Hence, we would argue that Infrastructure Australia can continue to play a unique role, arising from its independent status, in advising governments on better governance models for investment of public funds.

In this context, determining whether a project passes a BCR may be of lesser importance than the need to improve the overall governance and transparency in the allocation of public expenditure so that better *relative* decisions are made in key areas given a range of choices.

Example:

In the area of Communications infrastructure, more co-ordinated, transparent, and planned co investment with the States to fill digital connectivity gaps in regional areas, is clearly needed.

This will improve governance in the allocation of public funds, maximise efficiency of expenditures and align those expenditures to where there are the greatest social and economic gains. This type of planning enables cross sectoral review of say , health needs in in regional and remote areas with communications capabilities.

3.What are the models for the reform of the organisation?

To rise to the challenge of future economic infrastructure planning and advisory work, a number of changes would need to occur:

- Instead of yearly Statements of Expectations a four-to-five-year government Charter could set out the mandate, recognising that the current reform and investment agenda is a multi-year challenge;
- Within that Charter, Infrastructure Australia should preserve its independence and ability to advise on topics that will drive towards those strategic goals;
- The advisory role and capabilities of Infrastructure Australia should be boosted at both officer and board level;
- Australian Infrastructure Audits and the subsequent Plans should be completed at longer intervals than prescribed in the Act;
- More of IA's time and resources should be devoted, with COAG, to systematically focussing on progressing an agreed reform agenda, based on its recommendations for reform, starting with the 29 recommendations made in the 2021 Plan;
- Reporting on the reform agenda should be annual.

The closest Model is the UK's National Infrastructure Commission (**see Appendix A**).

We would be pleased to elaborate on our submission in person.

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Deena Shiff was a director on the Board of Infrastructure Australia from September 2017 to November 2021. Deena also served as the Chairman of the Regional Telecommunications Independent Review Committee in 2015 and was the Chairman of the Government's Australian Broadband Advisory Council from July 2020 to July 2022. Deena has had both a senior legal and executive career (including as Group Managing Director at Telstra). In the last ten years Deena has been a full time Non Executive Director, serving on the boards of global technology and infrastructure companies.

Gabrielle Trainor AO is a non-executive director and advisor whose experience covers over twenty-five years on boards in the public and private sectors ranging from infrastructure (including as a director of Infrastructure Australia), financial services, transport and urban design and development to sports, arts and culture and the empowerment of Aboriginal and Torres Strait Islander people.

She is a director of Zurich Australia Limited, private construction company Built Limited, the ACT City Renewal Authority, listed investment company WAM Global and the Western Parkland City Authority. She is a member of the board of the Victorian Government's Major Transport Infrastructure Authority and the advisory board of Gadens.

APPENDIX A

Key Features of the National Infrastructure Commission UK.

- Operates under a Charter.
The Government can request studies, but the NIC can determine its work program and recommendations to government
- The NIC reports and makes recommendations once every Parliament to which the government must respond (if not, why not)
- The NIC will monitor and do a stock-take of government's progress towards recommendations
- Scope is economic infrastructure (energy/transport/water and waste management /digital communications infrastructure) with an extension of remit to deal with climate change and resilience. It does not inquire into social infrastructure, land use, housing, or agriculture. Nor does it re open regulatory decisions or intrude into regulated industries.