

**Submission to the independent review of
Infrastructure Australia**

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The Grattan institute welcomes the Government's decision to review Infrastructure Australia, and the opportunity to contribute to that review.

Infrastructure Australia has the potential to play a key role advising the Commonwealth on its infrastructure stock and investments.

The Grattan Institute has published extensively on the role, effectiveness, and governance of Infrastructure Australia. Several publications are particularly relevant to the terms of reference and guiding questions laid out for the review. These publications focus on transport, although many of the issues they raise apply in some degree to energy, water, and communications infrastructure.

The governance and role of Infrastructure Australia

Infrastructure Australia at present is not structurally embedded in the infrastructure decision-making process of the federal government. The result is that it is more often overlooked than listened to.

My opinion article, published in *The Australian* in June 2022, explains the need for Infrastructure Australia to operate as a commitment device for the government of the day, as originally envisaged by Anthony Albanese.¹ My opinion article, published in *The Australian Financial Review* in July 2022 explains why the Prime Minister's own 2014 design of a better Infrastructure Australia remains valid.²

The future investment challenge for the Commonwealth

Much of what the federal government spends on transport projects is outside the role that it has agreed with the states. The federal

government is supposed to focus on nationally significant infrastructure on the National Land Transport Network, while locally-important roads and rail are the responsibility of state and local governments. The arguments for this position are laid out in my 2022 Grattan Institute report, *Roundabouts, overpasses, and carparks: hauling the federal government back to its proper role in transport projects*.³

A tighter nexus is needed between the federal government's strategy for infrastructure and the projects that are selected for investment. A more active strategic role for the federal government should include consideration of challenges beyond the immediate time horizon, such as decarbonisation, electrification, climate change adaptation, and automation.

But the current process of fiscal equalisation operates as a constraining force; to the extent that federal investments deviate from the equalisation shares estimated by the Commonwealth Grants Commission, such investments are effectively unravelled. This issue is also discussed in *Roundabouts, overpasses, and carparks*.⁴

Stewardship of the federal government's investments

The federal government needs a gatekeeper for business-case discipline; the advantage of holding this function at arm's length from departments of state is the scope to assess projects with a greater degree of independence.

A rejuvenated Infrastructure Australia could usefully take on the following functions:

1. Terrill (2022a).

2. Terrill (2022b).

3. Terrill and Scott (2022).

4. Ibid.

- Enforcing greater discipline in cost estimation, including collecting and collating the data on completed projects to inform estimation on future projects.
- Enforcing more disciplined benefits estimation and learning from history what benefits were realised, both positive and negative.
- Enforcing the requirement for post-completion reviews, and collating these lessons to facilitate learning from history.
- Pushing back on the choice of megaprojects as a first rather than last resort.
- Supporting a systematic preference for smaller projects over larger projects, and equal enthusiasm for non-build options as build options.

The arguments for this position are laid out in this 2020 Grattan Institute report, *The rise of megaprojects: counting the costs*.⁵

I would welcome the opportunity to appear before the review panel to elaborate on these views.

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5. Terrill et al (2020).

Bibliography

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