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Director – Engagement, Advisory and Projects Section  
Department of Infrastructure, Transport, Regional Development, Communications and the Arts  
GPO Box 594  
CANBERRA ACT 2601

Via email: [IA.Review@infrastructure.gov.au](mailto:IA.Review@infrastructure.gov.au)

Dear Mr Mrdak AO and Ms Lockwood

### **SUBMISSION TO THE INDEPENDENT REVIEW OF INFRASTRUCTURE AUSTRALIA**

The Infrastructure and Commercial Advisory Office (ICA) thanks you for the opportunity to make a submission to the Independent Review of Infrastructure Australia (IA).

The ICA, a division in the Commonwealth Treasury, is the Australian Government's in-house commercial and financial adviser. Established in 2017, ICA advises client departments and agencies on commercial and financial aspects of Australian Government infrastructure priorities and projects – i.e. the 'how' of Australian Government infrastructure investment.

ICA works closely and constructively with IA across a range of infrastructure policy and project matters. The views outlined below aim to clarify and strengthen IA's role and functions within Australia's infrastructure governance frameworks for the critical decade ahead.

#### IA's role

Advice on infrastructure matters is, rightly, a contested space. Since IA was established in 2008, the infrastructure policy landscape has matured, and the challenges grown more complex. In the context of "best placed", there are a range of entities that could and do make authoritative contributions to differing aspects of infrastructure policy, planning and governance, including government departments (federal or state), other infrastructure bodies, regulators, market bodies, industry, and academia.

IA's unique qualities and value has been demonstrated in its recent work providing independent, national policy leadership in certain key areas such as market capacity, resilience, dealing with uncertainty and digital engineering. These qualities include its cross-jurisdictional relationships, its standing with industry, its convening power, its ability to promote national best practice and look beyond the near-term.

There are nationally significant areas where entities other than IA that are best placed to provide advice. For example, in the energy space, there is an established ecosystem of governmental bodies that provide advice to all levels of government on policy, regulation,

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markets and infrastructure. It is not clear what additional value IA could efficiently provide in energy policy.

ICA believes IA can best support optimal infrastructure investment into the future through enhancing its involvement and influence in respect of early decision making and reference project selection. That is, through a heightened focus on analysing up-front the question: is this the right solution at the right time?

Fundamental decisions such as scope, route alignment for transport projects, project packaging, staging and preferred procurement models are often made very early in the process using lightly assured analysis and/or arguably subjective multi-criteria analysis. There is a risk that viable counterfactual solutions are insufficiently investigated and articulated by proponents to properly inform robust decision-making and input into business case planning. Government sponsored projects are rarely “now or never”. In ICA’s opinion, even where disbenefits from deferring investment are qualitatively discussed in business cases, rarely are the costs and benefits of deferral or staging articulated and quantified in detail with a formal benefit-cost analysis.

Final or detailed business cases have often been years in the making and at significant cost. Regardless of any advice IA may give in respect of these business cases, proponents are unlikely to revisit any of the fundamental decisions or assumptions underpinning the business case.

### “National significance”

In ICA’s view, the mandate of IA would be strengthened by redefining what is genuinely “nationally significant”. A more strategic, risk-based approach would see IA refocusing its attention on proposals of clear national significance and high complexity, and at the initial options analysis, project definition and feasibility study stages.

### Effectiveness

The funding threshold and project planning stage at which IA’s review is engaged do not reflect where IA’s impact can be maximised.

In ICA’s view, the \$250 million across-the-board threshold does not consider the differing risk profiles across the different infrastructure sectors. For example, the cost profile of road infrastructure projects ranges from very small (<\$250 million), to a large number that meet IA’s threshold but do not seem to be “nationally significant”, to some of Australia’s transport megaprojects (>\$5 billion capital cost).<sup>1</sup> IA’s 2021 Market Capacity report found that transport infrastructure projects represent 74 per cent of the Major Public Infrastructure Pipeline over the next five years and that linear transport projects overall tend to be more labour and plant resource intensive, and are thus subject to greater market-based cost pressures than utilities

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<sup>1</sup> Examples of road projects that may not be ‘nationally significant’ that IA has or is evaluating include the Barwon Heads Road Duplication (VIC) and the Pakenham Roads Upgrade (VIC). Megaprojects include North East Link (VIC), Western Harbour Tunnel and Warringah Freeway Upgrade (NSW), and the North-South Corridor (SA).

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or building construction projects.<sup>2</sup> As such, it is likely more “standard” low complexity, road infrastructure projects will creep into the >\$250 million bracket.

In contrast, there are only three water infrastructure projects >\$1 billion and five that meet the \$250 million threshold within the National Water Grid Fund.<sup>3</sup> The Productivity Commission in its 2020 *National Water Reform Report* found that it is common for the costs of major water infrastructure projects to increase substantially between early feasibility work and final construction, citing shortcomings in water infrastructure project assessment and selection processes.<sup>4</sup>

This suggests that the threshold for IA to review infrastructure proposals should be differentiated by sector, considering each sector’s pipeline of activities, commercial uncertainties, and risk profiles.

### Governance

The federated nature of Australian government means that most infrastructure can only be State led or jointly sponsored by the Commonwealth and a State. Joint infrastructure proposals inevitably need to reflect both stakeholders’ interests and objectives. Accommodating proponents’ interests or preferences (e.g. route alignment) can mean “integrity” needs to embrace compromises or trade-offs from what might otherwise be optimal. The “carrot” of Commonwealth funding for IA endorsed business cases has some incentive value. The “stick” of the threat of not funding projects where IA has not positively assessed the business case appears far less effective in practice, ignores that other advice (such as Departmental advice) may contest the IA position, and that Government must often balance multiple objectives when assessing proposals. In some cases, decision-making could be better informed where counterfactual project options are better investigated and articulated. Proponents may not have incentives to do so robustly.

Giving IA a Parliamentary Budget Office type mandate and additional budget could theoretically enable it to provide infrastructure policy costings and investigate viable counterfactual projects or project options. In fulfilling this role, IA could progress a number of the important reforms with respect to improved benchmarking of infrastructure delivery costs, schedule and performance it raised in its *Delivering Outcomes* report.<sup>5</sup> However, ICA notes that, on balance, such a role would require significant funding, there will be a limit to how robust the analysis would be in the absence of buy in from the proponent, and a risk of fundamentally undermining trust between IA and proponents.

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<sup>2</sup> Infrastructure Australia (2021), *Infrastructure Market Capacity*, p.33

<[www.infrastructureaustralia.gov.au/infrastructure-market-capacity](http://www.infrastructureaustralia.gov.au/infrastructure-market-capacity)>

<sup>3</sup> National Water Grid Authority, *Status of the National Water Grid Fund construction projects (as at 29 March 2022)* <[www.nationalwatergrid.gov.au/sites/default/files/documents/nwgf-construction-project-summary-march-2022.pdf](http://www.nationalwatergrid.gov.au/sites/default/files/documents/nwgf-construction-project-summary-march-2022.pdf)>

<sup>4</sup> Productivity Commission (2021), *National Water Reform*, Inquiry Report no. 96

<<https://www.pc.gov.au/inquiries/completed/water-reform-2020/report/water-reform-2020-supportingi.pdf>>

<sup>5</sup> Infrastructure Australia (2022), *Delivering Outcomes: A roadmap to improve infrastructure industry productivity and innovation* <<https://www.infrastructureaustralia.gov.au/publications/delivering-outcomes>>

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### Other functions

#### *Cities and Suburbs Unit*

Cities are the main contributor to Australia's economy, generating around 80 per cent of the nation's GDP.<sup>6</sup> However, just as the Commonwealth has struggled to find a clear role in cities/urban policy, it is unclear what value IA could add and what the role of a Cities and Suburbs Unit would be separate to that currently undertaken by the Department of Infrastructure, Transport, Regional Development, Communications and the Arts.

One potentially beneficial role could be translating national policies such as the Intergenerational Report, the National Population and Planning Framework and annual Population Statements, the National Freight and Supply Chain Strategy, and the Productivity Inquiry into place-based recommendations for the Commonwealth.

#### *Social infrastructure*

The service delivery enabled by social infrastructure is largely a state responsibility and ICA would question how many social infrastructure projects are likely to be 'nationally significant'.

### The future investment challenge

As the Australian economy transitions in the next 10-20 years, a key challenge will be coordinating policy and investment across sectors in the face of significant exogenous uncertainties. Sectoral interdependencies, often impacting across state boundaries, have been highlighted in responding to crises and disasters (e.g. disruption of freight supply chains affecting restoration of critical services in regional communities).

IA could have an important role undertaking cross-sectoral analysis and articulating interdependencies. IA can assist the Australian Government's long-term strategic policy development regarding the transition through providing expert infrastructure-focused advice, leveraging consultations with its extensive stakeholder network. A model in this regard is the New Zealand Infrastructure Commission (Te Waihanga) which recently led the developing of the infrastructure chapter in New Zealand's first national adaptation plan.<sup>7</sup>

ICA looks forward to further engaging with you on the IA Review.

Regards



Mr David Webster  
Chief Executive Officer  
Infrastructure and Commercial Advisory Office

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<sup>6</sup> Australian Housing and Urban Research Institute (2020), 'Enabling economic activity to thrive in Australia's cities' <[www.ahuri.edu.au/research/brief/enabling-economic-activity-thrive-australias-cities](http://www.ahuri.edu.au/research/brief/enabling-economic-activity-thrive-australias-cities)>

<sup>7</sup> New Zealand Infrastructure Commission / Te Waihanga (2022), 'Government launches plan for climate change adaptation' <[www.tewaihanga.govt.nz/news/commission-news/government-launches-plan-for-climate-change-adaptation/](http://www.tewaihanga.govt.nz/news/commission-news/government-launches-plan-for-climate-change-adaptation/)>