

NSW Government submission

Introduction

Thank you for the opportunity to provide input to your review of Infrastructure Australia (IA). The NSW Government has an effective working relationship with IA and via Infrastructure NSW, participates in a coordinating group with IA and other jurisdictional infrastructure bodies. Initial observations are provided below and Infrastructure NSW is ready to coordinate a meeting with the review team along with other NSW Government agencies to provide further input.

Developments since IA was formed

Since the time that IA was established in 2008, there have been a number of relevant developments, as set out below.

1. **State Capability** - States have established their own infrastructure bodies to provide expert advice on investment programs, including project selection, infrastructure policy, and project procurement and delivery, grounded in local market knowledge. States have developed strong rigour and routines for investment decision-making. Infrastructure NSW regularly engages with similar agencies in other countries which has proven useful but has also revealed that Australian bodies are among leaders in infrastructure advice.
2. **Infrastructure programs** have grown significantly at a State level, with many transformative projects delivered or in delivery. This has been accompanied by growth in experience and expertise at a State level. By comparison, the Commonwealth has a more limited number of projects.
3. **Scale and Complexity** - There has been an increase in the number of large, complex projects characterised by multiple stakeholders and communities, multiple large contract packages, exposure to in-ground risks across many long-occupied sites, extensive property acquisition and delivery over long timeframes. These projects dwarf projects in previous decades in cost, time, complexity and risk and they consume resources of both governments and industry. Lessons have been learned along the way, and practices have been reformed, from how proposed investments are announced to how they are procured and monitored in delivery.
4. **Climate change mitigation and adaption** - There is growing focus on the role of infrastructure investment in responding to climate change. First, there is an extensive and ongoing investment in energy transition, mostly in sectors dominated by private sector players, albeit with material State Government support. Second, State investment programs must turn increasingly to climate change adaption and service reliability, including water security and flood mitigation, bush fire preparedness and recovery as well as drought and high heat loads. This includes targeted investments in dedicated resilience assets, as well as hardening, duplication and augmentation of a wider class of infrastructure assets. This often involves programs of works rather than lumpy individual projects.

5. **Digital technologies** and other emerging technologies have become more significant in designing and planning infrastructure, in monitoring and operating infrastructure and, in some cases, offering alternatives to new infrastructure investment. The COVID-19 pandemic has further revealed the opportunities for providing services remotely.
6. **Industry engagement** – State jurisdictions and industry have pursued initiatives to improve practices related to project design, de-risking major projects, efficiency of tendering, risk allocation and more sustainable industry culture. This also extended to the management of COVID-19 where deep cooperation was necessary. There is a mature and productive dialogue that can help further improve the infrastructure sector.

Implications and Opportunities

There are a number of implications for the Commonwealth in general, which may influence the future role and approach of IA.

Better integration of infrastructure planning

More integration of Commonwealth project prioritisation and funding with state infrastructure planning would better support the efficient delivery of infrastructure projects.

State infrastructure planning is strongly linked to service delivery by operating agencies with frontline responsibilities. National level planning is, by nature, at risk of being remote from service delivery and it may be difficult for a federal agency to understand the complexities and challenges for each State. At times, there has been a tendency for the Commonwealth to target high profile “transformative” projects, potentially at the expense of more routine investments that have high payoffs.

Programs or projects supported by the Commonwealth are most effective where they draw on planning and prioritisation by States, rather than accelerate particular projects by funding them outside State planning priorities. Where the Commonwealth nominates out-of-sequence projects for funding, State resources can be skewed to initiatives that are not compatible with good project selection. By contrast, Commonwealth priorities developed in cooperation with States would catalyse productivity growth and alignment with Commonwealth and State priorities.

New approaches are required to achieve more meaningful integration and IA could play a role in facilitating that process with State infrastructure bodies.

Infrastructure Priority List

In particular, the Infrastructure Priority List (IPL) has not proven to be an effective tool to deliver the integration needed. There is a need for clarity on the role of the IA Infrastructure Priorities List in determining Commonwealth funding.

States and Territories invest a great deal of time to get projects and initiatives on the IPL, but that is of not great significance in determining which projects are funded by the Commonwealth. The IPL offers little insight into Commonwealth priorities. Infrastructure investment in NSW could better be

supported by IA through greater transparency about the long-term infrastructure pipeline and prioritisation of nationally significant projects.

Duplication in scrutiny of proposals

Functions initially envisaged for IA when it was established now duplicate practices undertaken at a State level, most particularly extensive independent scrutiny of investment proposals through IA's Project Evaluation function.

Bilateral arrangements between States and the Commonwealth, where States demonstrate sound oversight and good practice, such as the Investor Assurance function in NSW, would be an effective alternative to current arrangements.

The review may provide an opportunity for the mandates of IA and the federal infrastructure department to be clarified.

Infrastructure Australia reviews

Were IA's existing Project Evaluation function to remain, it would benefit from improvements in timelines, alignment with state business case development and budget decision, and enhanced consistency between projects. New South Wales is currently reviewing its approach to investment analysis and cost benefit analysis, and there would be benefits from IA also updating its methods in coordination with a number of jurisdictions.

The IA assessment process is not well suited to infrastructure priorities that will be delivered by a larger number of stakeholders over a longer time period, which are increasing in prevalence, such as active transport priorities that may be delivered by local and state governments, community groups and the private sector.

Dollar threshold for IA reviews

While \$250 million is a significant amount, it no longer qualifies as a large project and, in the case of some mega projects, \$250m is not a particularly large contribution. A tiered approach to IA reviews of investment proposals would be warranted, in many cases relying on work undertaken at a State level. That said, \$250 million in the context of smaller regional projects could be enough to support enhanced outcomes for the community.

Partnerships that reflect the complexities of project delivery

Commonwealth approaches to jointly funded State projects should incorporate the lessons of States in project delivery. Most particularly, States have extensive experience on delivery of large, complex projects and the incremental process of understanding and communicating preferred options and solutions, design development, budget setting and program.

Infrastructure NSW has published guidelines to support good practice, and these have been formally adopted and put into practice by the NSW Government in the form of Premier's Memoranda. Commonwealth involvement and funding of projects would ideally reflect those disciplines, and IA can play a role in embedding those practices with Commonwealth agencies and Ministerial offices.

Infrastructure NSW also recommends earlier engagement with stakeholders to better secure the potential benefits envisaged for a project. Engagement later in the process following project definition, design or even procurement runs the risk that some benefits cannot be realised. NSW

agencies advise that collaboration with stakeholders yields practical benefits to the delivery of state infrastructure programs.

Long term programmatic funding

Some of the most important investments over coming decades are likely to involve long-term programs of works to augment existing assets and networks. Often capacity, reliability and productivity is best enhanced by targeted technology improvements or by hardening and providing redundancy for assets. Such programs require steady and predictable resourcing and funding, understanding of interdependencies, well-sequenced delivery, and overt Government support.

There are precedents for Commonwealth and States working effectively in this way, such as through national partnership agreements to upgrade highway networks. The Commonwealth understandably seeks involvement and oversight for such commitments over long periods. IA may play a role in that alongside the Commonwealth Department.

Policy development

It is often the case that certain policies and reforms require coordination at the national level. IA has developed several initiatives, including the market capacity program, which had some success in aggregating State level data and supporting State-level practices.

IA can continue to play a leading role, working with State bodies, to initiate areas of policy development that are most relevant at the national level. These could include more targeted policies relevant to climate change mitigation and adaption, digital technologies, and other areas that could be agreed across the Commonwealth and State bodies.