Ideas to Outcomes

COMMITTEE FOR MELBOURNE

Transparency. Accountability. Objectivity.

The case for an independent Infrastructure Victoria

A Committee for Melbourne discussion paper

June 2015

Message from the CEO

Infrastructure investment and delivery across Greater Metropolitan Melbourne has played a critical role in building the globally successful and contemporary city we are today. As our population and outer urban boundary both continue to swell however, our infrastructure needs have quickly started to outpace our rate of build. As we look forward to a potential eight million Melburnians, it is clear we need to develop a better framework to plan for a successful Melbourne of the future. Fundamental to achieving this is a commitment to undertake a cross-sectoral, evidence-based, independent process of project prioritisation to ensure that the most essential projects are placed at the forefront of a comprehensive and holistic project pipeline.

Independent prioritisation of infrastructure projects may be a politically contentious issue, but it is a necessity to ensure the long-term growth and development of our city and it is a path down which we must proceed. People say it cannot be done, that governments in the end will make decisions that fit their need to attract votes or deliver on their long-held political ethos. But it has been done. In Manchester, an innovative new model for assessing the productivity outputs of infrastructure development was married up with a process of independent prioritisation of projects, a process in which politicians of all persuasions gave up their right to make self-focused decisions for the greater good. Other cities in the UK and around the world are now looking to the Manchester model to depoliticise their infrastructure prioritisation process.

Around the world, examples have proven that when there is a pressing need to deliver, we can put party politics aside for the benefit of the greater good. Sir John Armitt, the UK expert responsible for the independent review of long-term infrastructure planning in the UK, noted that:

'London 2012 proved we are capable of planning and delivering complex and innovative infrastructure projects with local and national cross-party support. We did it right for the Games and now we need to apply the lessons we've learned to other areas and services we need to improve to cope with the challenges ahead.'

Cross-party agreement can be achieved, however at some point it requires a coalition of the willing to agree to come together to make better long-term decisions. We can make significant headway to close the infrastructure divide, but to do so we must move to a system where a long-term pipeline of priority projects has bipartisan agreement so that we have clarity and certainty moving forward.

To put this discussion in some context, we are talking about the long-term independent assessment of major city, state and nation shaping infrastructure projects. These projects take years to deliver, many more years than a single political cycle, and usually, more years than any government can realistically hope to hold office. The reality is it is highly unlikely that the minister who breaks ground on the project will actually be the minister who cuts the ribbon on opening day.

These projects likely commit successive governments of varying colours, not to mention budget spends that go well beyond the forward estimates period. It follows that these super-projects should be independently assessed on a genuine city-shaping and productivity enhancing needs basis and when determined to be ready to proceed, do so with bipartisan political and community support.

Kate Roffey
Chief Executive Officer

About the Committee for Melbourne

Strategic leadership entity the Committee for Melbourne is an apolitical, not-for-profit, member-based organisation that brings together over 130 organisations from Greater Melbourne's business, academic and civic sectors, who share a common vision to make Melbourne a better place to live, work and do business.

As an independent organisation we represent no single interest group or political position, but seek to challenge conventional thinking and to develop innovative ideas to continue to enhance our position as an economically prosperous and highly liveable global city.

Our thanks
The Committee would like to express its appreciation to our members and their staff who contributed to the development of this report.

Committee for Melbourne
Milton House
Level 2, 25 Flinders Lane
Melbourne Victoria 3000
Australia
Telephone: +61 3 9650 8800
Facsimile: +61 3 9650 6066
@Committee4Melb
melbourne.org.au

This document is also available in PDF format at melbourne.org.au

Contents

Executive Summary

Greater Melbourne's current population of 4.4 million people is projected to nearly double in size by mid-century. In addition to rapid population growth, increasing financial, economic and social pressures are all forecast to provide a significantly more challenging context, and our current arrangements for prioritising infrastructure are inadequate to deal with these long-term challenges.

The Committee for Melbourne has been arguing for an independent infrastructure entity in Victoria for a number of years and is encouraged by the current Government's election commitment to establish its own Infrastructure Victoria '*with responsibility for providing independent, transparent advice on infrastructure projects and priorities*.'

It is critical that any entity charged with the role of independently assessing long-term infrastructure developments in the best interests of the State, is given the appropriate powers to do so. As part of our ongoing discussions around the long-term prioritisation of infrastructure, the Committee's membership has developed this paper which includes recommended best practice principles for the establishment of an independent entity.

This paper is the culmination of several member task-force discussions and is built on the collective thinking and practical experience of many of our experienced member organisations. It includes an overview of the need for change and best practice principle recommendations based on the collective input of members, as well as observations in other jurisdictions in Australia and overseas.

As a result of our consultation, 'Ten Principles for Infrastructure Prioritisation' have been developed.

It is important to note that to be an effective organisation, all these elements need to be working together. Independence for example, will not be effective in the absence of transparency and quality appointments; a cross-sectoral approach will not deliver if it is not in line with the long-term vision.

Regardless of how robust the structure of the entity itself is, its ability to deliver will be reliant on certainty of funding, and efficiency of delivery. It is important therefore, that there is a funding link, potentially via the establishment of an independent funding stream, and that best practice project delivery is achieved.

Great cities do not happen by chance – they grow and develop through visionary thinking and long-term planning. As such, it is critical that we get the process of independent prioritisation right. Both in Australia and around the world we have seen many examples of 'independent' prioritisation fall well short of the mark. There are however, models emerging overseas, in particularly in the UK, that show independent assessment for the greater good can work – we just need a coalition of the willing ready to come together to make it happen.

Great cities do not happen by chance – they grow and develop through visionary thinking and long-term planning.

Ten Principles for Infrastructure Prioritisation

1. **Independence**
   A robust, independent process for infrastructure prioritisation that is free from political influence or bias.
2. **Transparency**
   A consistent framework of transparency and openness will instil a sense of credibility and confidence. This includes clarity around the process undertaken to determine priorities, as well as an obligation to present recommendations to the full Parliament rather than leaving the decision around disclosure at the discretion of the relevant minister.
3. **Appropriate powers**
   An independent entity must be given the power to objectively assess projects on their merits, and a requirement to present those recommendations with full transparency.
4. **Accountability**
   The remit of the entity, including the scale and scope of projects it is responsible for, the types of infrastructure projects for which the entity is responsible (hard, soft and social infrastructure) and the role of the entity in interacting at the federal level, must be clearly defined.
5. **Evidence-based**
   Comprehensive evidence-based analysis of business cases is essential. This should take into account wider economic benefit analysis that applies a broader social and economic lens than has traditionally been used.
6. **Cross-sectoral holistic approach**
   An integrated approach that includes a whole-of-network assessment of key economic infrastructure sectors such as transport, water, energy, telecommunications and waste.
7. **Alignment with a long-term vision**
   Decision-making must be based on a sound strategic framework that encompasses state and city development objectives as set out in a long-term vision.
8. **Quality appointments**
   Board and executive appointments must be persons who are considered ‘industry experts’, who are appropriately detached from the political landscape to be recognised as independent, and who also have a strong background in understanding the machinations of government and the political process.
9. **Stakeholder engagement**
   Key to the credibility and longevity of the entity will be the effective engagement of stakeholders to ensure both that bipartisan political and community support for projects is achieved.
10. **Flexibility**
    In our rapidly changing world there must be scope for flexibility to allow for adaptive evolution as required. This should only be done on the basis of sound evidence underpinning the need for change.

1. The need for change

It is widely acknowledged that well-functioning infrastructure forms a critical framework upon which major cities can successfully develop. Infrastructure is both a pivotal growth enabler and societal glue, facilitating the movement and exchange of people, freight, ideas and business. Melbourne has a good track record of delivering infrastructure. The CityLink Freeway, the Melbourne Underground Rail Loop, the Westgate and Bolte Bridges, and the Regional Rail Link were all large-scale visionary projects in their day, and all have had a major impact on making Melbourne and Victoria a better place to live, work and do business. It is these visionary infrastructure projects that have simultaneously enabled the city to grow to its current population of 4.35 million[1], while at the same time supporting high levels of economic growth and an enviable quality of life.

There is much we have done that we can, and should, be proud of. Despite heavy investment across Melbourne and Victoria in the past however, in recent decades, our rate of build has not kept pace with our rapidly growing, and in spatial terms, spreading population. When the 'Loop' was completed in 1985, we never dreamed we would be servicing a greater metropolitan population of 4 million people, much less the projected 8 million people who will live in Melbourne by the middle of this century.[2]

Looking ahead, we see increasing pressures on the horizon. Demographic, financial, economic and social issues have converged to provide a more challenging context. It is not surprising, given the scale and cost of the projects required to keep pace, that we have lagged behind in building infrastructure capacity. Our increasingly congested road, rail and tram systems, and lack of hard and soft infrastructure to service newly developed outer suburbs, clearly shows we must find a way to accelerate our rate of build.

In light of these challenges we must maintain and deliver infrastructure which is founded upon more robust thinking and informed decision-making. As the Productivity Commission recently asserted, '*if the wrong projects are selected the outcome for the community will be poor, even if these projects are efficiently funded and financed, and their costs well controlled*.'[3]

Historically, arrangements that involve governments as the 'project selector' are the norm for roads, passenger rail networks, public transport, and social (including schools, hospitals and prisons) infrastructure projects. In November 2013, Deputy Governor of the Reserve Bank of Australia Philip Lowe highlighted the concerns and perceived shortcomings around infrastructure decision-making in Australia:

'There is, I detect, a deal of scepticism in the public's mind about how projects are selected. This scepticism weakens public support for large-scale investment in infrastructure. Many people are concerned that money will be wasted and that political considerations will trump economic considerations.'[4]

Infrastructure is both a pivotal growth enabler and societal glue, facilitating the movement and exchange of people, freight, ideas and business.

[1] Australian Bureau of Statistics, *Regional Population Growth, Australia, 2012-13*, Series 3218.0.

[2] State Government of Victoria, *Plan Melbourne*, Melbourne 2014.

[3] Productivity Commission, *Public Infrastructure Draft Report volume 1*, March 2014.

[4] Philip Lowe, *Speech to the IARIW-UNSW Conference on Productivity Measurement, Drivers and Trends*, November 2013.

Committee for Melbourne's work to date

The issue of independent infrastructure prioritisation has been on the Committee's agenda for some time. In 2010, the Committee's member-based Shaping Melbourne Taskforce concluded that Melbourne and its infrastructure was ill-prepared for a population beyond five million. In order to maintain its liveability and prosperity as it grows towards eight million people, we required a long-term infrastructure plan and the establishment of a new body, provisionally titled a 'Victorian Infrastructure Commission.' The Taskforce concluded that the Commission should report to State Parliament and its aim should be that of '*providing assurance on the condition and performance of Victoria's infrastructure and long-term planning for future infrastructure needs, in line with defined economic, environmental and social objectives.*'[5]

In 2012, as a result of the Committee's presentation to the Victorian Public Accounts and Estimates (VPAE) Committee's *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*, the VPAE Committee's final report highlighted concepts advocated by the Committee for Melbourne's submission in the first of its sixteen recommendations[6]:

The Government (should) establish a new advisory body, the Victorian Infrastructure Council, to be responsible for the identification and analysis of possible new projects for inclusion in an ongoing pipeline of future projects. Responsibilities would include:

- *Being a key source of policy and other advice to Government on overall infrastructure priorities and directions;*
- *Recommending an infrastructure vision for Victoria and associated long-term planning strategies (including a 20 year strategic infrastructure plan and 5 to 10 year rolling plans);*
- *Advising Government on the priority of proposed projects; and*
- *Acting as the principal liaison body on behalf of the Government with Infrastructure Australia on national infrastructure matters.*

While it has been a long-held concession that it is ultimately the responsibility of the executive government to determine investment priorities, the political difficulties associated with selecting long-term, high-value projects that transcend the political cycle is changing the shape of the conversation. The realisation at the political level that choosing projects will never please the entire electorate, combined with the growing number of projects that have stalled due to differences in policy at the political level, is making a clear case for change.

Although recent amendments progressed by government are noted (the creation of the Partnerships Victoria, Major Projects Victoria, and the 1994 Infrastructure Investment Policy for Victoria, which saw the development of guidelines to incentivise private investment in major public private partnerships), infrastructure planning has not improved to the degree necessary to assure the community that effective infrastructure decisions are being made.[7]

In 2010, the Committee's member-based Shaping Melbourne Taskforce concluded that Melbourne and its infrastructure was ill-prepared for a population beyond 5 million.

[5] Committee for Melbourne, *Melbourne Beyond 5 Million, Volume 3 – Physical Infrastructure and Connectivity*, October 2010.

[6] Public Accounts and Estimates Committee Victoria, 112th Report to Parliament, *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*, December 2012.

[7] Public Accounts and Estimates Committee, *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects – Engineers Australia Transcript*, Melbourne, 22 March 2012.

While the competencies and dedication of the agencies involved with infrastructure planning and implementation are recognised, it remains the case that planning and implementation must be better coordinated and integrated, and that this requires an institutional model different to that which is currently in operation.

As outlined by the Productivity Commission in its inquiry into public infrastructure, the following issues persist across the Commonwealth:

- Inadequate incentives and accountabilities for ensuring that projects are properly analysed;
- Decision makers having difficulty in judging whether analyses accurately represent the likely costs and benefits of projects;
- Decisions being driven by political considerations rather than economic merit;
- A relative bias towards short-term project selection, rather than careful and systematic analysis of longer-term needs and trends;
- Preference being given to icon projects, rather than projects which may not be as attention grabbing, but which might offer higher net benefits;
- Incentives for a preferred project to be selected at an early stage and maintained even if new information shows it to be deficient; and
- Planning is done by, on the one hand, departmental and agency staff, whose brief is to take a micro view, and, on the other hand, by an Infrastructure Planning Council that has a broad brief, and most of whose members lack the necessary expertise and skills to undertake the development of strategy at a more detailed level.[8]

As previously noted, there are a number of pressures driving the case for change. Now, more than ever, we need to put politics and electioneering aside and look to making decisions for the collective greater good.

Key issues driving the need for change

- **Population growth**

  With Melbourne's population set to double in size to around 8 million by mid-century, significantly greater demand will be placed upon the city's infrastructure over the coming years.[9]

  To meet this increase in demand, Melbourne will need to both 'sweat our assets' to optimise the use of existing infrastructure, and strategically plan for the delivery of new infrastructure to build capacity.

  Furthermore, Infrastructure Australia's recently released *Australian Infrastructure Audit* estimated that the cost of delay in the urban transport network to the Melbourne-Geelong conurbation was $3 billion in 2011 and, without action, is projected to grow to around $9 billion in 2031.[10] It is clear that the costs to undertake works are high and growing every day, but so too are the indirect costs of doing nothing.

- **Constrained fiscal environment**

  An assessment of the funds required to meet Melbourne's infrastructure needs (including upgrades to existing infrastructure capacity and new build), is not directly available. To give an idea of scale however, consider that the three major city-shaping infrastructure projects that were the focal points of the 2014 State election – the East end of the East-West Link, the West end of the East-West Link and the Metropolitan rail capacity building project – were projected to cost between $25 and $30 billion in today's dollars, the magnitude of the challenge ahead becomes clear.

  While the private sector maintains that there is no shortage of private capital to assist in project financing, funding still remains a key issue. As noted in the Committee's 2012 publication *Moving Melbourne – An infrastructure funding and financing discussion paper*, our challenge is not finance, but rather finding those new and additional funding streams that will underpin future investment.

[8] Productivity Commission, *Public Infrastructure Draft Report volume 1*, March 2014.

[9] State Government of Victoria, *Plan Melbourne*, Melbourne 2014.

[10] Infrastructure Australia, *Australian Infrastructure Audit*, May 2015.

Notwithstanding funding issues, we still need to work harder to make private investment more appealing. The very 'lumpy' nature of infrastructure investment, which often sees widely-spaced, large-scale projects on offer that have life spans often exceeding 40 years, means these projects are often more difficult to finance than other assets. Only a relatively small subset of investors are content to accept such long-term investment horizons, on such a large scale.[11]

Nonetheless, finance is available. It remains the case however, that the current domestic environment inhibits the full utilisation of this available pool of capital into infrastructure. To illustrate this point, the Superfund industry estimates that there is approximately $75 billion of capital per annum which is earmarked for finding a home within infrastructure investments.[12] These investments often find a home in overseas projects where the regulatory environments, or the types of projects on offer, are more appealing.

- **Lack of strategic vision**
  The failure to underpin infrastructure planning with a strategic approach that includes a clear understanding of the complete long-term vision, and how individual projects contribute to the growth, development, and connectivity of Greater Melbourne and Victoria as a whole, means the path forward is not as clear as it should be. As the Productivity Commission noted:

> *'Decisions are being driven by political considerations rather than economic merit and a relative bias towards short-term project selection, rather than careful and systematic analysis of longer-term needs and trends.'*[13]

- **Poor cross-sectoral perspective**
  Infrastructure assets form interconnected networks with powerful cross-cutting effects. An unreliable power grid for instance, can severely hamper the capacity of a transport network. Too often, the evaluation of projects is made in isolation instead of being part of an overall system resulting in incomplete and inefficient solutions that often only address local symptoms rather than network-wide problems.[14] Developments of major infrastructure assets need to be considered and managed as part of much larger wholly or partially integrated systems.

  Currently, our system sees responsibilities scattered across local, regional and national jurisdictions, as well as across a range of infrastructure authorities that administer different asset classes. It is essential we take a more comprehensive cross-sectoral view of infrastructure development, which considers an integrated whole-of-network approach to transport, water, waste, energy, and telecommunications going forward. This is in line with recommendations made in the Armitt Review, which attaches high value to including a cross-sectoral perspective in its recommendations for a National Infrastructure Commission in the UK.[15]

- **Poor project evaluation**
  It is commonplace for decisions regarding major infrastructure build to be made on the basis of political nuances, rather than on an assessment of genuine needs-based prioritisation and sound cost-benefit assessments. When making significant infrastructure investment decisions, there is no excuse for not undertaking thorough cost-benefit analyses. These analyses need to be evaluated robustly with the understanding of how infrastructure assets vary in terms of the costs they impose and benefits they deliver.

[11] McKinsey Global Institute, *Infrastructure productivity: How to save $1 trillion a year*, January 2013.

[12] Productivity Commission, *Inquiry into Public Infrastructure Transcript of Proceedings at Melbourne – Cbus super*, 9th April 2014.

[13] Productivity Commission, *Public Infrastructure Draft Report volume 1*, March 2014.

[14] McKinsey Global Institute, *Infrastructure productivity: How to save $1 trillion a year*, January 2013.

[15] The Armitt Review, *An independent review of long term infrastructure planning commissioned for Labour's Policy Review*, September 2013.

As identified in the Productivity Commission's report on public infrastructure: '*There are examples where large public infrastructure projects have been approved without thorough analysis of their costs and benefits.*'[16]

This does not mean that all projects worthy of being built must be cost positive in a dollar sense as there are important social and city shaping benefits that accrue over time that are difficult to measure. It does mean however, that we need to take a full and rounded view of costs and benefits, both financial and social, when making decisions.

- **Lack of transparency**

  Transparency is another critical element of success for an independent infrastructure entity. Despite the honest intentions of political or organisational leaders to make the best decision possible given the information available, the absence of open and transparent access to information that has led to the given decision leaves the door open for questions. The absence of transparency leads to misinformation and distrust arising, whether it is warranted or not. This in turn can lead to good projects being jeopardised, and poor projects 'sneaking through' the system.

  As the Productivity Commission notes, making available information that clearly documents the assumptions and evidence upon which projects have been selected or rejected greatly improves the transparency of decision-making. This builds trust that those decisions are being made for the right reasons, in the best interests of the community.

  Transparency will always be important, never more so than in the constrained fiscal environment we currently face, which exacerbates the need to have a well-functioning and transparent process of infrastructure prioritisation, focused on delivering the best economic and societal returns.

  There are examples around the world of transparency in decision-making in operation on which we can build. In Finland, for example, the government is required to regularly publish, in a readily accessible form, the cost-benefit analysis rankings of those projects they have decided to proceed with, as well as those which have been considered and subsequently rejected.[17]

- **A declining trust in government processes**

  In many countries, including Australia, the uncertainty around political and policy risk with regard to infrastructure is growing. The ongoing politicising of projects means our progress is consistently interrupted as projects stop and start with changes in government. This creates a sense of mistrust and a 'here-we-go-again' attitude, which impacts investor confidence and damages our reputation as a reliable place to invest and do business.

  Taking a more strategic and bipartisan approach to long-term decision-making not only builds confidence in the private sector, it also builds confidence in the role ongoing governments play in delivering growth for the future.

- **Suboptimal investment**

  Gold plating projects and a failure to focus on 'sweating assets' are commonly observed limitations of project development in Australia. The Productivity Commission notes that preference is often given to icon projects, rather than projects which are less attention grabbing, but which might offer higher net benefits.[18] While in many cases new build is critical to create capacity, we also need to work harder to ensure we stretch the capacity of existing infrastructure.

  According to a McKinsey Global Institute (MGI) analysis of global best practice, one of the most powerful ways to reduce the overall cost of infrastructure is to optimise infrastructure portfolios.[19] MGI's analysis shows that optimising infrastructure portfolios through the elimination of

[16] Productivity Commission, *Public Infrastructure Draft Report volume 1*, March 2014.

[17] Concept Economics, *Evaluating major infrastructure projects: how robust are our processes?*, April 2010.

[18] Productivity Commission, *Public Infrastructure Draft Report volume 1*, March 2014.

[19] McKinsey Global Institute, *Infrastructure productivity: How to save $1 trillion a year*, January 2013.

poorly conceived projects and the selection of more cost-effective alternatives, generally frees up an estimated 15 to 35 per cent of new capital spending.[20]

Despite the clear need for improved infrastructure, the challenge for Australia is to invest more efficiently and consistently over the economic cycle[21] and avoid the temptation to undertake premium projects that may be more appealing on paper, but are also more expensive and less sustainable infrastructure solutions.

…preference is often given to icon projects, rather than projects which are less attention grabbing, but which might offer higher net benefits.

- **Poor communication and stakeholder engagement**

  Experience has shown that even if key issues such as transparency, strategic vision, robust evaluation and cross-sectoral interaction are appropriately addressed, infrastructure projects can still experience major delays, cost overruns, or, in the worst-case scenario, can be shelved if the need for investment is not clearly communicated and key stakeholders are not effectively engaged from the outset.

  There are many examples of good stakeholder engagement processes leading to potential project hurdles being overcome. In London for example, a rigorous process of engaging business in the discussion around the need to invest in much-needed upgrades to the tube system – and explaining the reasons why that investment benefits the future growth of those businesses – led to businesses themselves in the Greater London area actually voting in a self-imposed Business Rates Supplement to help fund the London Crossrail build; Europe's biggest civil engineering project.

[20] McKinsey Global Institute, *Infrastructure productivity: How to save $1 trillion a year*, January 2013.

[21] SMART Infrastructure Facility University of Wollongong, *Infrastructure Imperatives for Australia*, January 2014.

2. Principles for Infrastructure Prioritisation

As part of its 2014 election platform, Victorian Labor committed to establishing Infrastructure Victoria; an entity to be tasked with the responsibility for *'providing independent, transparent advice on infrastructure projects and priorities*.' Labor also indicated it will establish Projects Victoria, a specialist agency to deliver Infrastructure Victoria's priorities.[22]

Within Australia and around the world, there are a number of infrastructure entities that have been established to help progress the difficult task of infrastructure prioritisation. Each of these entities varies in its structure, powers and remit, and as such each has inherent strengths and weaknesses.

In looking to establish our own independent Victorian entity, we should seek to build on the best practices of those entities that are already in existence. Hindsight affords us the luxury of avoiding the pitfalls these entities have encountered, and the opportunity to build on the strengths and weaknesses exposed as these entities have evolved over time.

As part of our deliberations, the Committee has completed a review of the different organisational models in existence in Australia and in other countries with similar governance systems, namely the United Kingdom, Canada and New Zealand, along with an assessment of their strengths and weaknesses (see Appendix 1 for details).

Summary of guiding principles

Over the past 18 months the Committee for Melbourne has hosted a number of taskforce discussions with members that have focused on identifying best practice guiding principles for the establishment of an independent infrastructure prioritisation entity. Taking into consideration the outcomes of these discussions, in combination with current best practice taken from established models, the following ten key principles for infrastructure prioritisation are recommended:

1. **Independence**
2. **Transparency**
3. **Appropriate powers**
4. **Accountability**
5. **Evidence-based**
6. **Cross-sectoral holistic approach**
7. **Alignment with a long-term vision**
8. **Quality appointments**
9. **Stakeholder engagement**
10. **Flexibility**

[22] Victorian Labor, *Platform 2014.*

Ten Guiding Principles

1. Independence

A robust, independent process for infrastructure prioritisation that is free from political influence or bias.

Infrastructure planning and delivery is by its nature long-term focused. By way of example, Table 1 below gives an idea of the long-term nature of major Melbourne projects.

Table 1: Development timescales of major infrastructure projects in Melbourne

Project	Timescale	Number of state political cycles
Melbourne Park Redevelopment Stages 1 and 2	*2010[23] - 2019[24]	4
Epping Wholesale Market	2004 - 2015[25]	4
Federation Square	1996 - 2002	2
Southern Cross Station	2000 - 2006	3
Port of Hastings[26]	2013 - 2025	4

** Date at which works commenced on site*

While a number of significant projects have been completed despite changes in government during their build, there have been many much-needed city-shaping projects that have either been shelved, delayed, or ignored, due to political nuances.

According to Sir John Armitt, author of the UK's independent review of long-term infrastructure planning, a constantly changing political landscape is a major inhibitor to progress. In fact, the Armitt Review contends the UK's current infrastructure issues stem from two key issues at the front end of the project cycle:

1) Failure of successive governments to set strategic priorities for infrastructure based on clear projections of future needs; and
2) Policy uncertainty making it difficult to sustain cross-party political consensus on controversial infrastructure issues resulting in reversals of policy and prevarication over decision-making.[27]

To overcome these ongoing issues in Victoria, it is proposed that a robust, independent process for prioritisation of infrastructure projects of significance to the growth and development of the State of Victoria be established. The process of independent prioritisation not only brings a much-needed long-term focus to infrastructure development, it also assists government by relieving it of the requirement to make these difficult, long-term decisions in isolation. This helps reduce the risk of prioritising the wrong projects, and limits the likelihood of suboptimal project delivery.

It should be noted that the aim of independence is not to disempower the government of the day. Rather, it is to take the process of assessment and prioritisation of these technically complex, large-scale, and more often than not controversial decisions, out of the political cycle and to place them in a space of long-term strategy and thinking, set through the appropriate democratic process.

As we have seen from past experience, it is not only the future of the state that suffers from the politicisation of major individual infrastructure projects. Many a government has come and gone off the back of a decisive stand on infrastructure build – the recent East-West Link project in Victoria and discussion over privatisation of assets in Queensland being clear cases in point.

To ensure the independence of the prioritisation process, Parliament needs to play a central role in the decision-making process, however this needs to be bipartisan in nature and focused on the long-term interests of the State. Making this process genuinely independent means divisive political differences can be taken out of the decision-making process and bipartisan support for those essential capacity-building projects for the future can be garnered.

[23] Tennis Australia, *Melbourne Park Redevelopment*.

[24] Major Projects Victoria, *Melbourne Park Redevelopment Stage 2 Industry Briefing*, February 2014.

[25] Government of Victoria, *Major Projects Victoria*.

[26] Government of Victoria, *Port of Hastings Development Authority*.

[27] The Armitt Review, *An independent review of long term infrastructure planning commissioned for Labour's Policy Review*, September 2013.

2. Transparency

A consistent framework of transparency and openness will instil a sense of credibility and confidence. This includes clarity around the process undertaken to determine priorities, as well as an obligation to present recommendations to the full Parliament rather than leaving the decision around disclosure at the discretion of the relevant minister.

Vital to independence, and ultimately bipartisan political and community support, is a consistent framework of transparency and openness that assures the wider public that full and informed assessments are underpinning the decision-making process.

While it may not be the commonplace approach taken in many countries, there are international examples of this transparent approach paying dividends. The Finnish Government, as mentioned, is required to regularly publish, in a readily accessible form, the cost-benefit analysis rankings of those projects it has decided to proceed with, as well as those which have been considered and subsequently rejected.[28]

Similarly, the Armitt Review in the UK recommended transparency as a key. As part of the Armitt model, the UK National Infrastructure Commission would be required to deliver its National Infrastructure Assessment (NIA) to the Chancellor of the Exchequer who will have a statutory obligation to lay the Assessment before Parliament within a six month period together with such amendments that the government might propose. The NIA would then be laid before Parliament together with a substantive motion seeking Parliamentary approval by means of a vote in both Houses.[29]

While the Armitt recommendation still leaves it up to the Government and Parliament to either fully or partially accept or reject the NIA priorities, it at least obliges them to provide a strong explanation as to why the proposal has been amended or rejected making it harder for the government of the day to change priorities in an ad-hoc manner, without explaining why. A transparent process allows for full and robust assessment of projects and creates the requirement to clearly account for change, both of which will help to keep the long-term infrastructure vision on track across political cycles.

3. Appropriate powers

An independent entity must be given the power to objectively assess projects on their merits, and a requirement to present those recommendations with full transparency.

Having the courage to provide the entity with the required powers to make it truly independent will be the greatest test of any government's willingness to move to a genuine system of long-term, needs-based prioritisation. One of the most common criticisms levelled at existing structures is that they lack the powers required to make them truly independent. While many do provide independent advice to government, the reality is governments can, and regularly do, ignore either the advice of these entities, or in some cases, completely bypass the established process.

The 2014-15 Federal Budget is a case in point. As a report by the Australian Parliamentary Library notes, on the upside the budget provided funding for 36 major infrastructure projects, including the Sydney WestConnex motorway, the Melbourne East-West Link, the Bruce Highway in Queensland, and the Swan Valley Bypass in Western Australia. On the downside however, of the major projects announced in the Budget, only four[30] had been assessed by Infrastructure Australia and placed in either a 'threshold' or 'ready to proceed' category in its Priority List. Indeed, only seven of the projects funded appear anywhere on the list, either in the 'early stage' or 'real potential' category.[31]

Without the power to objectively assess projects on their merits, and to present these priority recommendations to the full Parliament, rather than to the Minister only, the process will almost inevitably become advisory only in nature. This means that recommendations can be easily ignored, or in a worst-case scenario as noted above, the entire process side-stepped.

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[28] Concept Economics, *Evaluating major infrastructure projects: how robust are our processes?*, April 2010.

[29] The Armitt Review, *An independent review of long term infrastructure planning commissioned for Labour's Policy Review*, September 2013.

[30] The Gateway Motorway North and Ipswich Motorway in Queensland and the Great Northern Highway and North West Coastal Highway in Western Australia.

[31] Parliament of Australia, *Budget Review 2014-15 Index*.

4. Accountability

The remit of the entity, including the scale and scope of projects it is responsible for, the types of infrastructure projects for which the entity is responsible (hard, soft and social infrastructure) and the role of the entity in interacting at the federal level, must be clearly defined.

Equally important as independence is accountability, and clearly defining the powers, scope and limitations of any independent structure will be critical in establishing a robust and effective entity. Without a clear remit, any entity will potentially be subject to either interference in its work, or to over-stepping its boundaries.

In considering the remit of the entity, the following must be clarified:

- The vision of the entity;
- The governance structure of the entity;
- The roles and responsibilities of the entity, including the reporting process;
- The long-term time frame for the vision;
- The time frame for intermittent plans or reviews;
- The scale and scope of projects that fall under the entity's responsibility;
- The types of infrastructure projects included within its mandate. This may include size and scope considerations as well as the type of projects such as hard, soft and social infrastructure; and
- The scope of the entity to independently initiate assessments.

It is not only imperative that the responsibilities of an independent Infrastructure Victoria are clearly defined at the state level, but also its responsibilities as a state-based entity to the broader national strategy. A key aspect of this will be clarifying its role in preparing and presenting submissions for the State of Victoria to Infrastructure Australia, if it is determined to be in the best interest of the project(s) to pursue federal funding.

5. Evidence-based

Comprehensive evidence-based analysis of business cases is essential. This should take into account wider economic benefit analysis that applies a broader social and economic lens than has traditionally been used.

Transparent decision-making must be underpinned by an evidence-based cost-benefit analysis approach to project selection. Strong evidence-based analyses should be comprehensive in their definition and quantification of key inputs, and standardise costs and benefits across projects by asset class. As Philip Lowe, Deputy Governor of the Reserve Bank, stated in a discussion on the topic, '*there is no substitute for rigorous and transparent cost-benefit analysis.*'[32]

It should be noted that cost-benefit analyses must not rely solely on financial and operational considerations, as has often been the case. Reliance on these traditional measures often makes it difficult for business cases to demonstrate a sound return, because they do not include important long-term economic, social and environmental effects.[33]

Sound decision-making is dependent upon a foundation of robust, well-informed, cross-sectoral analysis. To be effective, the independent authority must have the capacity to incorporate a wide range of projections such as economic growth forecasts, population trends, technological change and environmental developments into its assessments.

Infrastructure Australia, for example, uses 'Wider Economic Benefits' (WEBs) to complement its cost-benefit analyses for transport infrastructure projects. Prominent among these considerations are:

- *Agglomeration effects* – the benefits that accrue for organisations as a result of locating near each other, such as economies of scale and network effects.

- *Welfare effects* – benefits that result from a deepening of the labour market and changes in productivity resulting from improved job matching attributable to a transport initiative.

[32] Philip Lowe, *Speech to the IARIW-UNSW Conference on Productivity Measurement, Drivers and Trends*, November 2013.

[33] McKinsey Global Institute, *Infrastructure productivity: How to save $1 trillion a year*, January 2013.

- *WEBs related to imperfect labour market competition* – travel time savings are used as a measure of improved productivity following the reduction in journey time associated with a transport improvement.

Although the concept of using WEB-based assessments is just emerging in Australia, there is growing support for the use of these more broadly focused measures. Infrastructure Australia recognises that '*the calculation of these wider benefits is still in its infancy, both in Australia and internationally*', however further notes that '*the correct interpretation and accurate calculation of WEBs (using the most suitable data available) can add texture to the decision-making process for certain initiatives*.'[34]

Support for WEBs is further echoed by the Productivity Commission, which states that '*to provide a reliable guide to what is in the overall interest of the community, cost-benefit analysis needs to be broad, taking into account all relevant economic, social and environmental outcomes*.'[35]

Among leading practitioners in the WEB field, there is increased recognition of the UK-based City Deals assessment model as a leading innovation in this area. This model applies a much broader social and economic welfare lens to cost-benefit analysis than has traditionally been the case and has been put to use with great success in Greater Manchester.

Essentially, City Deals is an innovative strategy for building stronger urban and regional growth via smarter strategic planning, infrastructure investment and local governance. The core goal of UK City Deals is to direct infrastructure spending to projects that boost productivity, employment and economic growth. The City Deals model represents a radically different approach to infrastructure priority-setting, funding and financing, and by using the concept of Gross Value Added – a style of local 'GDP' measure – an economic growth budget for a designated region is determined. A region that exceeds its growth budget receives a fiscal reward in the form of a share of the windfall tax arising from the additional economic growth.[36]

After implementing the City Deals model, the Greater Manchester region gained agreement from the Exchequer to return funds from the national budget back to the Manchester area for further investment in infrastructure projects. This 'deal' was agreed to on the basis of evidence Greater Manchester provided, which showed their infrastructure investments were achieving widespread productivity gains not just for their own area, but nationally as well. This seed, first planted in Manchester, is now spreading rapidly and will soon be extended to 28 major towns and regions across the UK.

There are of course other newly developed techniques emerging that can be utilised to ensure more robust validation of cost-benefit analyses. Reference-class forecasting, for example, is also gaining in prominence. Reference-class forecasting takes into account outcomes of similar actions taken in the past and their outcomes. This technique effectively increases the number of potential hypotheses for a projected outcome and helps overcome confirmation bias by including 'failures', forcing decision makers to consider cases that do not simply justify the preferred course of action.[37] It is encouraging to see that we are starting to engage more robust assessment measures to ensure the evidence on which decisions are made is more broad-reaching and all-encompassing.

This seed, first planted in Manchester, is now spreading rapidly and will soon be extended to 28 major towns and regions.

[34] Infrastructure Australia, *Templates for Stage 7 Solution evaluation (Transport infrastructure)*, December 2013.

[35] Productivity Commission, *Public Infrastructure Inquiry Report (Volume 1)*, 27 May 2014.

[36] House Standing Committee on Infrastructure and Communications, Infrastructure Planning and Procurement, *Submission by the Property Council of Australia*, June 2014.

[37] McKinsey Global Institute, *Infrastructure productivity: How to save $1 trillion a year*, January 2013.

Case study - The Greater Manchester Combined Authority

Greater Manchester is leading the way in best practice in the UK with strong, stable and effective governance across its area following the establishment of the Greater Manchester Combined Authority in April 2011.

The ten authorities in Greater Manchester were the first in the UK to develop a statutory Combined Authority to co-ordinate key economic development, regeneration and transport functions.

The Greater Manchester Combined Authority (GMCA) model is a generation step-change that builds on the original Association of Greater Manchester Authorities (AGMA), a voluntary collaborative model which saw Chief Executives and Council Leaders of the ten local authorities coming together to work on strategies and policies that impact Greater Manchester. Realising that there was great value in putting aside individual differences for the greater good, these discrete entities agreed to create a genuinely independent statutory body that would be charged with the responsibility for making all decisions on transport projects for the Greater Manchester area, as well as a range of economic development and regeneration functions – decisions that would be abided by at the AGMA level.

This governance arrangement was agreed upon in order to boost economic performance and help deliver a brighter future for Greater Manchester and the North West. The collective aim was to ensure that by 2020, the Manchester city region would have pioneered a new model for sustainable economic growth based around a more connected, talented and greener city region where the prosperity secured is enjoyed by the many and not the few.

Not only does the GMCA provide a stable and strong governance structure, enabling it to take on new powers and functions, it also has the gravitas to successfully engage with central government and national agencies. This enables Greater Manchester to secure future devolution and resource prioritisation.[38]

One of the key strengths of the GMCA is its engagement with key stakeholders. At the heart of Greater Manchester's governance arrangements sits the Greater Manchester's Local Enterprise Partnership (GM LEP). LEPs are voluntary partnerships between local government, business and others involved in higher education, and across the public, private, and voluntary and community sectors. LEPs ensure that business leaders and other key stakeholders are empowered to set the strategic course, determine local economic priorities and drive growth and job creation within the city region. The GM LEPs and the GMCA work in partnership to deliver on Greater Manchester's strategic ambitions.

Inevitably, transport projects, given their cost and impact, make a significant contribution to the GMCA workload. To deal with the raft of transport considerations arising, many transport functions have been delegated by GMCA to a specific Transport for Greater Manchester Joint Committee (TfGMC). The TfGMC is responsible for operational aspects of transport delivery, such as scrutinising the performance of public transport operators, monitoring the delivery of one of the largest transport capital programs in the country, and responding to the changing transport policy landscape.

While many transport functions have been delegated to TfGMC as a matter of course, on key issues such as approving budgets, the capital program and significant changes to transport policy, the TfGMC is required to provide advice to the GMCA (by way of recommendations) for endorsement or final decision.

The GMCA provides an inspiring model for looking at growth through an entirely new lens – one that focuses on taking the politics and self-interest out of the decision-making process, and turning an eye to the greater good. It is innovative, relatively simple in concept, and, according to its originator Lewis Atter, entirely deliverable in Victoria. It is a matter of having a coalition of the willing ready to come to the table to set aside personal differences for the sake of growth.

[38] House Standing Committee on Infrastructure and Communications, Infrastructure Planning and Procurement, *Submission by the Property Council of Australia*, June 2014.

6. Cross-sectoral holistic approach

An integrated approach that includes a whole-of-network assessment of key economic infrastructure sectors such as transport, water, energy, telecommunications and waste.

A cross-sectoral holistic approach to infrastructure, which considers an integrated 'whole-of-network' assessment of the key economic infrastructure sectors, such as transport, water, energy, telecommunications and waste, is essential if we are to extract the greatest benefit from our infrastructure spend. Too often projects are considered in isolation without regard for the impacts on, or requirements of, other integrated systems. As mentioned previously, upgrades to our train or tram networks will require boosts in electrical capacity. Development of new hospitals require significant telecommunications and IT investment, yet too often these integrations are overlooked in the development process.

As noted previously, the Greater Manchester Combined Authority has taken a much broader integrated view of cross-sectoral requirements when assessing projects and this has served them well in maximising their return on investment. This broader cross-sectoral view is also utilised in the Infrastructure Ontario model, which brings together the four units of project delivery – lending, real estate management, land acquisition and disposal – to achieve better outcomes.[39] The Armitt Review also advocates a broad cross-sectoral approach as best practice.

Too often projects are considered in isolation without regard for the impacts on, or requirements of, other integrated systems.

7. Alignment with a long-term vision

Decision-making must be based in a sound strategic framework that encompasses state and city development objectives as set out in a long-term vision.

Successful infrastructure organisations are built around decision-making predicated upon a sound long-term vision which addresses the state's broad socioeconomic goals. It follows therefore, that for infrastructure projects to be successful, they must be based in a sound strategic framework that encompasses more broadly both state and city development objectives determined through the appropriate democratic process.

These broader socioeconomic goals should be set within a long-term vision, and selected projects should address those objectives directly. By way of example, Singapore has a national objective for dense urban living that has led to the specific aspiration of achieving a 70 per cent usage rate for public transit. This aspiration, in turn, guides the selection of transport projects by the country's Land Transport Authority.[40] Similarly, Norway and Sweden both make long-term plans based on national strategic goals where individual projects that fulfil these goals undergo a thorough assessment; often based on a wider political process.[41]

While the requirement for a long-term plan is ubiquitous, the definition of what exactly constitutes 'long-term' for our needs must be clarified. Infrastructure New South Wales and New Zealand's National Infrastructure Unit for example, work with 20-year horizons,[42] while the *Infrastructure Australia Amendment Bill* of 2014 suggests the organisation should work to a rolling 15-year plan. There is no definitive right or wrong time frame. It is for us to assess what time frame is most appropriate to suit our rate of development and our projected needs.

[39] Province of Ontario, *Infrastructure Ontario*.

[40] McKinsey Global Institute, *Infrastructure productivity: How to save $1 trillion a year*, January 2013.

[41] Association for European Transport, *The Use of Cost-Benefit Analyses in Norway and Sweden: A Comparison*, European Transport Conference 2013.

[42] The New Zealand Treasury, *The National Infrastructure Unit*.

8. Quality appointments

Board and executive appointments must be persons who are considered 'industry experts', who are appropriately detached from the political landscape to be recognised as independent, and who also have a strong background in understanding the machinations of government and the political process.

Quality appointments to key positions will be critical to the effectiveness of any independent entity. Although independent, it is essential that such organisations have a strong relationship with government. Independence does not equate to the removal of government from the process. Rather it means a consultative style approach with both sides of politics to ensure there is bipartisan support for the long-term plan. A suitable balance is therefore needed in the appointment of persons who are considered 'industry experts', and who are appropriately detached from the political landscape to be considered 'independent', yet have a solid background in both working with government and how to effectively operate in this environment.

Based on experience elsewhere, a combination of quality appointments that engender visionary leadership, credibility based on expert knowledge, and acknowledged independence, will be critical for success.

Although independent, it is essential that such organisations have a strong relationship with government.

9. Stakeholder engagement

A key to the credibility and longevity of the entity will be the effective engagement of stakeholders to ensure that both bipartisan political and community support for projects is achieved.

Even if all the previously mentioned aspects are properly addressed, infrastructure projects can still experience major delays, and subsequent cost overruns, if key stakeholders have not been effectively engaged. Gaining bipartisan political and community support will be crucial for an independent Infrastructure Victoria to maintain credibility and achieve longevity.

A cornerstone of the development of an independent Infrastructure Victoria must be the development of a strategy to communicate the role and responsibilities of the new entity to the domestic and international business community. This will not only help to establish the entity, it also enhances confidence in Victoria as a preferred infrastructure investment destination.

The entity must also take on a key communication role as part of its remit to ensure transparency around recommendations for project prioritisation. By way of example, London First, a non-profit, member-based organisation charged with the mission to make London the best city in the world, played a key role in communicating to business and the community the need for the London Crossrail project. As a result of open and clear communication, London First was not only instrumental in seeing the Crossrail project come to fruition, but also in encouraging businesses in London to vote in a self-imposed Business Rates Supplement contribution to the project, which was a crucial element of seeing this project funded. As Alastair Darling MP, Chancellor of the Exchequer (2007-2010) at the time the project was approved noted:

'London First's contribution to the campaign for Crossrail was very important. It needed buy-in from citizens in London, especially in the City. It was always a big decision to make given its cost and the length of time it was going to take to build it spanning several parliaments. London First made a significant contribution.'[43]

[43] London First.

10. Flexibility to allow for evolution

In our rapidly changing world there must be scope for flexibility to allow for adaptive evolution as required. This should only be done on the basis of sound evidence underpinning the need for change.

The Armitt Review states that in a democracy, the '*government must maintain the prerogative to introduce new policies or to reject certain infrastructure schemes*.'[44] The review further notes however, that there are strong indications that '*the UK would benefit from a new institutional structure that would make the current tendency for policy drift more difficult to sustain and mean that when a government does change course, this is only to be done on the basis of sound evidence.*'[45] Australia should be no exception to this.

As mentioned previously, the international benchmark for best practice infrastructure planning appears to be set when governments take responsibility for establishing the broader socioeconomic goals – through the appropriate democratic process – and mandated infrastructure bodies then prioritise infrastructure projects based on their level of effectiveness and efficiency in addressing those socioeconomic objectives.

The flexibility to allow for adaptive evolution should thus be grounded on the basis of sound evidence of a significant shift in the landscape we find ourselves in. For example, the advent of autonomous cars is set to fundamentally change the way our cities and economies work. When that happens, we will need to ensure we retain the flexibility required to amend plans and objectives accordingly in order to fully embrace the benefits of this evolution and ensure we limit redundant spend.

The flexibility to allow for adaptive evolution should thus be grounded on the basis of sound evidence of a significant shift in the landscape we find ourselves in.

[44] The Armitt Review, *An independent review of long term infrastructure planning commissioned for Labour's Policy Review*, September 2013.

[45] The Armitt Review, *An independent review of long term infrastructure planning commissioned for Labour's Policy Review*, September 2013.

3. Funding and Delivery

A reliable funding base, and best practice project delivery will be critical factors in delivering best value for money infrastructure projects.

Funding

According to the Armitt Review, organisations that have an independent funding stream are more likely to be robust over the long-term, and best practice shows optimal results will be achieved when there is a direct link between the prioritisation of projects and the allocation of funds, as is the case in Greater Manchester.

In an Australian context, in 2008 the Building Australia Fund (BAF) was established by the Federal Government to finance capital investment in transport, communication, energy and water infrastructure. This fund was initially allocated $20 billion and in the 2009-10 Federal Budget the BAF (which at the time was overseen by Infrastructure Australia) directed $3.2 billion to Victoria's Regional Rail Link project – possibly the largest amount ever awarded to a land transport project in Australia.[46]

In July 2014, as part of the Abbott Government's Infrastructure Growth Package, the Asset Recycling Fund was created to replace the BAF and was made up of the uncommitted funds from the BAF ($2.4 billion) and the Education Investment Fund ($3.5 billion), with subsequent funds coming from the privatisation of Commonwealth assets.[47] The BAF's committed funds are currently managed by the Future Fund as part of its Nation-building Funds with the BAF's assets valued at $3.6 billion as of 31 March 2015.[48]

In what is emerging as best practice in Australia to date, recent changes in New South Wales are leading the way in a funding sense with the establishment of a dedicated "Restart" infrastructure fund. Initially seeded by the $20 billion projected net proceeds from the lease of the state's poles and wires, there is also a commitment from government to add to this fund any additional tax revenue that is greater than predicted. This fund will then be used to fund the priority list of projects assessed by Infrastructure New South Wales.

Establishing a similar fund that is directly linked to Victoria's project pipeline must also be considered. This fund could be seeded via a combination of state and federal funding contributions, income generated by the sale of existing assets and through new revenue streams generated via value capture mechanisms and the like. Funds can then be allocated to prioritised projects that will in future, inject revenue back into the fund.

Best practice project delivery

According to Infrastructure Australia's 2013 National Infrastructure Plan (NIP), Australia is among the most expensive nations in the world when it comes to infrastructure construction costs. By way of example, an international comparison showed that per kilometre costs for Australian road, heavy and light rail projects sit toward the upper end of the spectrum for similar projects in developed countries around the world.[49] It has been suggested that procurement processes along with poor project governance are major reasons why projects in Australia are particularly expensive, and often fail to meet their time frames, budgets and quality objectives.[50]

In response to this, the Andrews Government has committed to establishing Projects Victoria – a specialist agency to deliver Infrastructure Victoria's priorities. According to Victorian Labor's 2014 (election) Platform, Projects Victoria will be required to publicly report on the performance of all capital works under its management and oversight. This includes:

- Overseeing the scope, design and delivery of all major projects;
- Acting as a key project delivery body in the procurement of major infrastructure projects in Victoria;
- Researching and developing guidelines for applying appropriate procurement models for different types of projects; and
- Ensuring that workforce planning provides for mentoring programs, apprenticeships, traineeships and cadetships across all State Government departments.[51]

[46] Paul Mees, Royal Melbourne Institute of Technology, Australasian Transport Research Forum 2010, *Planning for major rail projects: The Melbourne Metro and Regional Rail Link*, October 2010.

[47] Parliament of Australia, *Infrastructure Growth Package – Asset Recycling Fund*.

[48] Australian Government Future Fund, *Portfolio update at 31 March 2015*, 28 April 2015.

[49] Infrastructure Australia, *National Infrastructure Plan*, June 2013.

[50] Ibid.

[51] Victorian Labor, *Platform 2014.*

Appendix 1 – Overview of infrastructure bodies

Australia – Infrastructure Australia (IA)

Since 2008, Infrastructure Australia (IA) has been responsible for assessing the appropriateness of national scale infrastructure, with accountability for recommending projects as suitable for federal funding support. IA's remit is to provide independent advice to governments, investors and infrastructure owners on a range of issues including:

- Advising on Australia's current and future infrastructure needs and priorities;
- Allocating Commonwealth funds to state projects following evidence-based appraisal;
- Mechanisms for financing infrastructure investments;
- Policy, pricing and regulation; and
- Efficiency in the delivery, operation and use of national infrastructure networks.[52]

In 2014, the *Infrastructure Australia Amendment Act* came into force, which provided additional powers with regard to developing long-term plans and transparency.

Positives

- **Evidence-based approach**
  Has promoted an evidence-based approach to project selection which has been adopted elsewhere.
- **Contributor to the policy reform debate**
  IA provides a strong contribution to the policy reform debate by commissioning research publications on topical issues, for example opportunities for capital recycling and its promotion of the benefits of user charging for infrastructure.[53]
- **Capacity to plan over a long time frame**
  As part of the 2014 *Infrastructure Australia Amendment Bill*, Section 5B was added which states that '*IA will enhance its role to identify new infrastructure projects within the context of a 15-year national infrastructure plan*.'[54]
- **Annual reporting**
  Produces an annual report for to the Minister for Infrastructure and Regional Development, which is to be made available to the Council of Australian Governments (COAG).
- **Providing clear signals**
  Role in raising public awareness and 'sending clear signals to the investment community.'[55]
- **Visible**
  Public profile and relevance can be maintained through the production of annual reports to COAG and strong visible leadership.
- **Qualified leaders**
  The selection of strong and appropriately qualified persons to the organisation's board.

[52] Property Council of Australia, *Submission to the Productivity Commission Public Infrastructure Inquiry*, 2013.

[53] Business Council of Australia, *Submission to the Senate Standing Committees on Rural and Regional Affairs and Transport Inquiry into the Infrastructure Australia Amendment Bill 2013*, January 2014.

[54] Ibid.

[55] Ibid.

Limitations

- **Provides advice only, which is often disregarded.**
  By means of example, in the 2014-15 Federal Budget not one of the projects that is allocated new money was rated by Infrastructure Australia as either 'Ready to Proceed' or 'On the Threshold' in IA's 2013 Annual Teport to COAG.
- **Capacity restraints**
  Due to a relatively small secretariat, IA only assesses projects submitted by other parties (primarily States and Territories).
- **Potential for more active 'free-thinking' role**
  With IA only able to assess those projects which are submitted, regardless of quality, it is suggested that IA should be afforded the capability to undertake a more active role in undertaking research for the identification, analysis and prioritisation of projects.
- **Transparency issues**
  No requirement for IA to make lists of recommendations public. This is currently only allowed with the agreement of the minister.
- **Funding allocation constraints**
  IA does not have the responsibility for the allocation of funding.
- **Limited scope**
  - Not been tasked with initiating project evaluations on its own;
  - Exclusion from evaluating some specific major projects, such as the National Broadband Network;[56] and,
  - Not being able to publish detailed evaluations of significant infrastructure projects.
- **No central role for reporting to Parliament**

[56] Business Council of Australia, *Submission to the Senate Standing Committees on Rural and Regional Affairs and Transport Inquiry into the Infrastructure Australia Amendment Bill 2013*, January 2014.

Australia – Infrastructure New South Wales (INSW)

Infrastructure NSW was established as an independent statutory authority in 2011. In addition to the primary role of developing a 20-year *State Infrastructure Strategy* and *Five Year Infrastructure Plans*, the remit of INSW is to:

- Prepare project implementation plans for major infrastructure projects;
- Review and evaluate proposed major infrastructure projects;
- Oversee and monitor the delivery of major infrastructure projects and other infrastructure projects;
- Assess risks involved in planning, funding, delivering and maintaining infrastructure;
- Provide advice on economic or regulatory impediments to the efficient delivery of specific infrastructure projects or infrastructure projects in specific sectors;
- Provide advice on appropriate funding models for infrastructure; and
- Coordinate the infrastructure funding submissions of the State and its agencies to the Commonwealth Government and to other bodies.

Positives

- **Role of assessing existing infrastructure gaps**
  INSW is required to identify infrastructure deficiencies within the existing network in order to assist with the preparation of its 20-year *State Infrastructure Strategy*. This allows for a wider holistic view of the network to be considered. However, INSW does not go as far as New Zealand's Major Infrastructure Unit in preparing an informed evidence-based assessment of existing infrastructure.
- **Focus on both economic and social infrastructure**
  In developing its recommended 20-year State Infrastructure Strategy, INSW takes consideration of both economic and social infrastructure.
- **Obligation to provide reasoning**
  As part of the improvements to the INSW model, although the government has retained the power to make the final decision after taking advice, an obligation to set out its reasoning has been included.
- **Infrastructure fund link**
  To ensure infrastructure priority projects are delivered on, a special "Restart" infrastructure fund has been established. This fund will initially be seeded by the net proceeds from the lease of the state's electricity assets. In addition, any tax revenue that is above projections will go into the fund.

Limitations

- **Lack of ministerial independence**
  The policy line of INSW is largely dictated by State Government priorities. As a result, the State Premier is able to either accept or disregard INSW's advice.
- **Limited Function**
  Like Infrastructure Australia, INSW's small secretariat means that whilst independent, the organisation does not have the capacity to probe deeper fundamental questions regarding the state's infrastructure. The body could therefore be seen as more reactive, rather than proactive, in its operations.

United Kingdom – National Infrastructure Commission (Armitt Review proposal)[57]

Note this is a proposed structure only.

Positives

- **Independent**
  The National Infrastructure Commission (NIC) would be afforded statutory independence.
- **Effective appointments**
  Expert and independent board/commission membership.
- **Evidence-based**
  The NIC would oversee the development of a new evidence-based *National Infrastructure Plan* for the UK.
- **Long-term funding**
  Funding for the NIC would be agreed in 10-year tranches.
- **Transparent**
  The commission would be required to engage with a number of outside stakeholders. A *National Infrastructure Assessment* (NIA) would also be subject to formal consultation before it could be finalised. Should the government subsequently amend the NIA, it would be required to explain why it disagrees with the Commission's assessment and support any proposed changes with evidence.
- **Focus on cross-sector operations**
  Would cover all of the key economic infrastructure sectors (energy, transport, water, waste, and telecommunications) in parallel. However, there is no suggestion of consideration of 'social' infrastructure.
- **Accountable for high-value and high-risk projects**
  Would be responsible for 'nationally significant' infrastructure as defined by the *2008 Planning Act*.
- **Long-term planned vision**
  Each decade, the NIC would undertake an evidence-based assessment of the UK's infrastructure needs over a 25-30 year horizon in a *National Infrastructure Assessment*. In appreciation of the long time-scale, the Commission would be required to develop a range of scenarios.
- **Complements existing parliamentary structure**
  The stated aim of the Commission is emphatically not to take power away from politicians, but rather to garner bipartisan support. As such, the UK Government retains responsibility for setting the policy agenda and will be able to amend recommendations put forward by the Commission. The NIC would thus seek to provide a framework against which the government could make more accountable decisions.

[57] The Armitt Review, *An independent review of long term infrastructure planning commissioned for Labour's Policy Review*, September 2013.

New Zealand – National Infrastructure Unit (NIU)

A unit within the New Zealand Treasury that:

- Forms a 20-year *National Infrastructure Plan* and establishes cross-government frameworks for project appraisal and asset management;
- Establishes robust and reliable cross-government frameworks for infrastructure project appraisal and capital asset management, and monitoring the implementation and use of those frameworks; and
- Provides support to, and acts as a secretariat for, the National Infrastructure Advisory Board.

Positives

- **Better Business Case Initiative**
  The ability to assess the performance of infrastructure assets through a Better Business Case Initiative. This provides a strong information base, which can better inform capital investment decisions.
- **Focus on cross-sector operations**
  Takes in a wide remit of infrastructure (i.e. energy, telecommunications, transport, water and the social sectors).
- **Independently advised**
  Is advised by the National Infrastructure Advisory Board (NIAB), which is independent and consists of members from the private sector and others outside the central government.

Limitations

- **Lack of ministerial independence**
  The National Infrastructure Unit's position within Treasury means that its remit is constrained.
- **Lack of transparency**
  Advice by the NIAB to the Unit and the minister is not made public (but could potentially be requested via New Zealand's *Official Information Act*).

Canada – Infrastructure Ontario (IO)

Established in 2005, IO is a Crown corporation with wide-ranging responsibilities for the delivery of infrastructure projects across the Canadian province of Ontario. The body provides a centralised organisation for a spectrum of infrastructure functions, including construction, project management, asset management and finance. In supporting the Ministry of Public Infrastructure Renewal, IO ensures complex projects are delivered both on time and on budget.

Positives

- **Value for Money**
  Value for money must be demonstrated in IO projects. Each project is assessed using two different delivery models (Alternative Financing and Procurement (AFP) vs Traditional Delivery). The project is subsequently progressed using whichever model provides the best value for money.
- **High volume of project turnover**
  Between 2007 and 2010, Infrastructure Ontario completed more than 35 projects representing approximately CAD 15 billion worth of capital.[58]
- **Political independence**
  Infrastructure Ontario (a crown corporation) is largely detached from direct political control and oversight.
- **Combination of specialist skills and focus**
  This allows a relatively large volume of work to be planned and procured for over a short time period.
- **Focusing on the deliverable**
  Ensures large and complex projects are delivered on time and on budget. For the 30 AFP projects delivered by IO that have reached completion, 29 were completed within budget, whilst 22 of the 30 projects were delivered on, or ahead of, schedule.[59]
- **Leveraging private capital**
  Leverages private capital through the provision of low-cost loans made available via IO's Loan Programme.
- **Centralised infrastructure procurement**
  A 'one-stop shop' approach to public infrastructure has led to reduced costs. For example, a report by KPMG (commissioned by Infrastructure Australia), found that infrastructure bid costs to procure in Australian are 25 to 45 per cent higher than Canada.[60] Canada's centralised model cuts costs which encourages more bids, and ultimately improved choice and more competitive tenders.

Limitations

- **Project development and delivery focus, rather than independent policy**
  Essentially a commercial delivery arm of government, IO primarily focusses on the delivery of infrastructure as opposed to providing independent thought and analysis towards setting an infrastructure framework, which is instead set out by a 10-year infrastructure plan developed by the Province's Ministry of Infrastructure.
- **Ministerial led decision-making**
  The Ministry of Infrastructure, in consultation with other government ministries, maintains responsibility for the assessment, prioritisation, and ultimately the determination of, which projects will be assigned to IO.

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[58] Public Accounts and Estimates Committee Victoria, 112th Report to Parliament, *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*, December 2012.

[59] Infrastructure Ontario, *Expanding Ontario's public infrastructure by delivering innovation, transparency, accountability and results – building a better tomorrow*, June 2014.

[60] Infrastructure Australia, *Efficiencies in Major Project Procurement Volume 1 Benchmarks for Efficient procurement of Major Infrastructure*, June 2012.


COMMITTEE
MELBOURNE
FOR