



Australian Government

Australian Government response to the
House of Representatives Standing Committee on
Infrastructure and Communications report:

Planning, procurement and funding for Australia's future
infrastructure: Report on the inquiry into infrastructure
planning and procurement

February 2017

Government Response
Planning, procurement and funding for Australia's future infrastructure

Report of the House of Representatives
Standing Committee on Infrastructure and Communications Report

The Australian Government welcomes the Committee's report and its recommendations to improve Australia's infrastructure planning and procurement processes.

The Australian Government supports a strategic focus on improving planning, procurement and delivery of infrastructure across all levels of government, including examining innovative means of funding and financing new infrastructure. This has been a key focus of this Government's infrastructure reform agenda.

In part, a priority for the Australian Government is to ensure that we are investing in the productivity enhancing projects we need to build for our future. It tasked Infrastructure Australia (IA) with undertaking the nation's first ever top-down infrastructure audit, a comprehensive assessment of Australia's infrastructure deficiencies and investment priorities. The audit has informed the development of IA's 15 Year Australian Infrastructure Plan (IA Plan), released in February 2016, and its Infrastructure Priority List (IPL), which is regularly updated.

The IA Plan and IPL, drawing from the audit and consultations with state and territory governments, is a key step in developing a coherent national infrastructure pipeline covering all jurisdictions, enabling governments and the private sector to plan for future needs.

The Australian Government's response to the IA Plan, released in November 2016, highlights the Government's commitment to working closely with state and territory governments in the development of major infrastructure projects, while emphasising its role as an informed investor. This includes working with state and territory jurisdictions to ensure project business cases take an integrated planning approach and address broader policy objectives. Early engagement by the Australian Government in business case development will also assist in establishing and maintaining a clearer pipeline of major infrastructure priorities.

Additionally, given the potential that urban rail has to transform key parts of our larger capital cities, connect residents to job centres and ease congestions pressures, the Government is working with the state and territory governments to develop urban rail plans. These plans will examine global trends and drivers of urban rail, including technological changes and demographic patterns, and include linkages between rail and urban planning.

It is generally well understood that the capacity of governments in providing all infrastructure is limited, and the Australian Government is committed to encouraging innovative funding and financing mechanisms on a project-by-project basis, noting that not all infrastructure projects are suited to private sector investment.

This commitment was formally established through the release of the Government's *Principles for Innovative Financing* in February 2016. As set out in the Principles, the Government supports funding and financing mechanisms where these result in economic efficiencies and improved services for the community.

The Australian Government also notes the Committee's recommendation to legislate to broaden Infrastructure Australia's role to be a specialist interdisciplinary procurement agency.

As the owners and managers of a majority of the infrastructure, the responsibility for determining the most effective means of procurement generally lies with state and territory jurisdictions, however, the Australian Government supports the jurisdictions in development of best practice.

The Government undertook reforms in 2014 to enhance IA's ability to provide effective, independent advice to governments on Australia's infrastructure needs. Legislative amendments included establishing the role of CEO responsible to a new Board and formalising IA's role to provide a national audit and rolling infrastructure plans.

Importantly, IA is expected to contribute to the efforts of all levels of government to build Australia's economy by providing robust, independent and evidence-based advice on Australia's future infrastructure needs.

Governments across Australia, together with the private sector, will best be able to successfully deliver the future infrastructure that the country needs through careful, integrated planning and by taking a flexible approach to determining the most effective funding and financing mechanism and the optimum procurement process.

Response to recommendations

Recommendation 1

The Committee recommends that the Australian Government, through COAG, facilitate greater coordination of infrastructure identification and planning between the Commonwealth, State, Territory and local governments, including harmonisation of planning regulations and processes, and reducing regulatory duplication between different levels of government.

The Australian Government supports this recommendation.

The Australian Government agrees that greater coordination of infrastructure planning and investments, reduced regulatory duplication, and increased harmonisation across planning systems will support improved outcomes. Appropriate reforms will be considered and progressed by the Government through a range of mechanisms, including the COAG Transport and Infrastructure Council, which comprises the transport and infrastructure ministers of the Commonwealth, state and territory governments.

The Government is working with the state and territory governments, through COAG, to update the *Australian Transport Assessment and Planning Guidelines*. The updated Guidelines outline best practice for transport planning and appraisal in Australia, and incorporate new and updated guidance for integrated transport and land use planning to better support planning and infrastructure investment decisions.

The IA Plan and IPL also have a focus on long term planning, the early identification of transport corridors and prioritisation of infrastructure to inform the development of a project pipeline. These documents were developed with significant consultation with states and territories, with regard given to jurisdictions' infrastructure plans and priorities.

The Government, through its response to the IA Plan, also announced that it will work with state governments to develop urban rail plans for Australia's five largest cities (and their surrounding regions) to better understand our current and future rail needs.

As outlined in the Australian Government's Smart Cities Plan, City Deals will allow governments to better coordinate strategic planning, investment and reforms that consider the needs of cities as a whole, while also driving national priorities. The first City Deals will be in Townsville, Western Sydney and Launceston.

The Government's *Principles for Innovative Financing* further reinforce its expectations on how projects are selected and developed, including that proposals seeking a contribution from the Commonwealth should align with integrated transport and land use planning strategies.

While the Australian Government supports the removal of red tape and duplication of regulatory processes across governments, it notes that planning regulations are primarily the responsibility of the relevant state, territory and local governments.

Recommendation 2

The Committee recommends that the Australian Government continue to facilitate the development of a pipeline of public infrastructure projects, in conjunction with state and territory governments, to ensure long-term continuity of infrastructure investment and better promote the efficient and cost-effective use of resources by all stakeholders.

The Australian Government supports this recommendation.

The Australian Government has made commitments of over \$50 billion to 2019-20 for current and future investments, the majority of which is being delivered through its Infrastructure Investment Program. The current Infrastructure Investment Program sets out funding arrangements for a pipeline of road, rail and inter-modal projects, administered under a National Partnerships Agreement.

As stated in the House of Representatives report, IA, in close consultation with Commonwealth, state and territory governments, has produced the IA Plan and updated its IPL, which will assist in informing Australia's infrastructure priorities. The IPL has been developed based on the IA Audit, IA Plan and evaluation of infrastructure proposals seeking \$100 million or more in Commonwealth funding. Proposals are evaluated based on robust cost-benefit analysis and strategic alignment with long term national, state and territory infrastructure priorities.

In many cases, proposals are at an earlier stage of development and businesses cases need to be further developed before the Government can determine the priority projects and make funding decisions. To assist in progressing proposals considered to have strategic merit, the Australian Government committed an initial \$50 million through its Infrastructure Investment Program to accelerate planning and development work on major transformational projects. For example, the Australian Government is providing \$10 million to progress planning for Brisbane's Cross River Rail, including supporting the establishment of the Cross River Rail Delivery Authority. This contribution will ensure better alignment with key emerging public transport projects within South East Queensland, including Brisbane City Council's Brisbane Metro System. The Government's commitment to early planning works will signal to jurisdictions and industry the priority projects in which the Australian Government is likely to support, subject to robust analysis of the final business case, including evaluation of the projects benefits and costs by IA.

The National Infrastructure Construction Schedule (NICS) is an initiative of the Australian Government that brings together information on major infrastructure projects from all jurisdictions and across the three tiers of government on one unique website. Constructors, investors, governments and the public can view, in a single timeline, the national pipeline of upcoming infrastructure projects where governments have committed to fund construction.

One of the key measures of the Australian Government's White Paper on *Developing Northern Australia* was to develop an infrastructure pipeline for northern Australia in consultation with jurisdictions, in order to provide information to investors about potential infrastructure needs so more can be built sooner and cheaper. As stated in the White Paper, the infrastructure pipeline for northern Australia will form part of the NICS.

In addition, the Australian and New Zealand governments, in cooperation with Infrastructure Partnerships Australia, launched the Australian and New Zealand Infrastructure Pipeline (ANZIP) website in October 2016. ANZIP provides detailed information on upcoming and medium-term greenfield and brownfield infrastructure investment opportunities, complimenting the NICS.

Recommendation 3

The Committee recommends that the Australian Government consider the adequacy of the fifteen year projection of the Infrastructure Plan to be developed and maintained by Infrastructure Australia taking into account the need for longer term forecasting of infrastructure decisions and the need for business certainty.

The Australian Government notes this recommendation.

The IA 15 Year *Australian Infrastructure Plan*, drawing from the *Australian Infrastructure Audit* and the *Northern Australia Infrastructure Audit*, has assisted in identifying a longer term pipeline of infrastructure projects that address Australia's future infrastructure needs.

However, as it is recognised that specific infrastructure needs may change over time, the Australian Government expects that IA will update the Plan at least every five years, through close consultation with Australian, state and territory governments and refresh its Infrastructure Priority List as business case assessments are completed.

Through its Statement of Expectations for IA, the Australian Government has also requested that IA maintain the currency of the data and analysis for both the *Australian Infrastructure Audit* and *Northern Australia Audit*, in order to accurately inform future Australian Infrastructure Plans, Priority Lists, updates and project evaluations.

Recommendation 4

The Committee recommends that the Australian Government via COAG pursue designation of land corridors for the development of significant infrastructure projects on the basis that these are integrated into the infrastructure planning process of relevant jurisdictions and are supplemented by a demonstration of future need.

The Australian Government supports this recommendation.

The IA Plan and IPL have identified a number of priority transport corridors and precincts for preservation that are likely to be required to support future infrastructure priorities.

Through the Transport and Infrastructure Council and its officials' Infrastructure Working Group, COAG is working to share current approaches and leading practice in the protection of land transport corridors and precincts across all jurisdictions. This work program will inform a future Action Plan for addressing identified gaps and reform opportunities. Further information can be found at: <<http://transportinfrastructurecouncil.gov.au>>.

Also, as outlined in the Smart Cities Agenda, City Deals will introduce a new mechanism through which the Australian Government will engage with states and territories on regulatory and policy reforms. Aligning transport and metropolitan planning strategies to protect important transport corridors for future uses will be a focus for the Government throughout this engagement.

Recommendation 5

The Committee recommends that the Australian Government, through COAG, pursue a national system for the registration of infrastructure related professions including those in the construction and engineering sectors so as to provide recognition of qualifications across Australia to better promote the efficient and cost-effective development of infrastructure.

The Australian Government notes this recommendation.

At this stage, there is insufficient evidence that national registration would enhance the recognition of qualifications in infrastructure-related professions. The Committee's report does not demonstrate barriers to qualifications recognition in these professions, or that improvements in qualification recognition would facilitate more efficient and cost-effective development of infrastructure.

The Australian Government is committed to the delivery of nationally consistent skills relevant to, and informed by, industry through Australia's high-quality education and training system and its qualifications.

To streamline labour mobility, the Department of Education and Training also supports the mutual recognition of occupational licenses issued by states and territories in occupations already subject to registration. Regulation of occupations seeks to manage risks related to safety and standards for both consumers and workers.

Recommendation 6

The Committee recommends that the Australian Government, through Infrastructure Australia, develop innovative financing and funding models for the development of public infrastructure with a view to making the financing and funding of public infrastructure more flexible and responsive to the actual costs and risks in the delivery and operation of that infrastructure. Options to consider and further develop include:

- User charging,
- Inverted bidding,
- Promotion of infrastructure bonds, and
- Capital recycling.

The Australian Government notes this recommendation.

The Australian Government already applies innovative funding and financing mechanisms for major Commonwealth-supported transport infrastructure projects, such as its \$2 billion concessional loan for WestConnex and an equity injection of approximately \$370 million for the Moorebank Intermodal Terminal.

The Northern Australia Infrastructure Facility also offers \$5 billion in concessional finance to complement private sector investment in north Australian infrastructure.

The Government's approach to innovative financing and funding is set out in the *Principles for Innovative Financing* released in February 2016.

To place greater emphasis on the application of innovative funding and financing measures, the Australian Government has also announced the establishment of an Infrastructure Financing Unit, to be known as the Infrastructure and Project Financing Agency, to work in partnership with the private sector to consider how to best structure Commonwealth investment in major infrastructure projects.

There is sound economic rationale for the application of user charging for certain infrastructure and some states already have road user charging and tolling in place on specific routes in their cities. The wider application of user charging requires consultation with state and territory governments, industry stakeholders and the community to ensure that any long-term reform is efficient, effective and fair. Matters such as equity, technological and privacy implications (of options like vehicle telematics) and the availability of alternatives, are all critical issues for further consideration. The Government will establish a study into the potential benefits and impacts of road user charging for light vehicles on road users, expected to commence in mid-2017.

The Australian Government also supported state and territory governments that were seeking to recycle their assets. Under the Asset Recycling Initiative, the Australian Government provided \$3.3 billion through incentive payments of 15 per cent of the sale price of privatised assets to state and territory governments, on the condition that the proceeds of sales are reinvested in new and upgraded productivity-enhancing assets.

The Australian Government notes, as it did in its response to the 2014 Productivity Commission's *inquiry into Public Infrastructure*, that the jurisdictions have and should retain the flexibility to determine the use of procurement methods, such as inverted bidding, on a project-by-project basis. This ensures that the most appropriate approach is taken based on the characteristics of each project, including its type, size, maturity and risk profile.

Caution is suggested in the promotion of infrastructure bonds through credit enhancements such as guarantees or special tax treatments as the case for these interventions is weak. Previous Australian Government schemes to promote the use of bonds for infrastructure had significant issues and were ceased because they were ineffective and created tax distortions that were exploited by financiers with little benefit flowing to projects.

Recommendation 7

The Committee recommends that the Australian Government propose to Infrastructure Australia that it develop innovative procurement practices for the tendering of public infrastructure with a view to making tender processes, more efficient, cost effective and flexible. Some of the options that should be considered include:

- 3D imaging of infrastructure and the need for regulation of the technology to be used;
- Promoting the use of Building Information Modelling;
- Co-funding design or purchase of intellectual property rights;
- The development of inverted bidding tender processes;
- Streamlining of tender processes and documentation;
- De-bundling projects;
- Centralising common elements of bids to make them more cost effective; and
- Shortlisting of favoured tenders.

The Australian Government notes this recommendation.

The Australian Government supports the development and use of procurement practices that make tendering processes more efficient, cost effective and flexible, whilst noting the state and territory governments are predominantly responsible for the procurement of infrastructure. The Australian Government promotes the use of best practice approaches in tendering for public infrastructure through the National Framework for Traditional Contracting, the National Alliance Contracting Guidelines and the National Public Private Partnership Guidelines, which were updated in early 2016. The Guidelines assist government agencies to engage the market in the most efficient and effective way while still providing the flexibility to explore innovations in procurement practices. The latest updates focussed on the need for strategic planning and robust project selection processes; practices to reduce bid costs; the need to support opportunities for innovation by bidders; the value of post-implementation reviews; and the use of modified funding and financing options.

Jurisdictions consider many of the issues and options raised in this recommendation, on a project by project basis, when designing the tender processes to ensure that the most appropriate approach is taken. The Guidelines support the consideration of practices such as the reimbursement of tendering costs, payments for the transfer of intellectual property, short-listing of tenderers and packaging projects into smaller components, where appropriate.

The Australian Government already supports the use of imaging technology and Building Information Modelling and notes that many Commonwealth and state agencies use these technologies for a variety of infrastructure projects. In November 2016, the National Digital Engineering Working Group, established under COAG, released *National Digital Engineering Policy Principles* to promote the consistent use of Building Information Modelling and Digital Engineering technologies for land transport projects across all Australian governments. The Principles can be found at

https://infrastructure.gov.au/infrastructure/ngpd/files/Principles-for-DE_Template_2.pdf

As indicated in its response to the IA Plan, the Government does not endorse any specific technology and the promotion of these products is best undertaken by the market, which is best placed to demonstrate their value. Agencies that deliver infrastructure projects are best placed to assess the extent to which these technologies can provide value for money for particular projects.

Recommendation 8

The Committee recommends that the Australian Government propose to Infrastructure Australia that it develop a methodology for evaluating the wider economic benefits of infrastructure projects with a view to applying this methodology to all major public infrastructure projects involving Commonwealth capital expenditure of more than \$100 million.

The Australian Government supports this recommendation in-principle.

As part of the Government's reforms to IA to improve the robustness and transparency of the assessment of major infrastructure, it is required to determine a robust method for evaluating projects across economic and social infrastructure. IA is also required to evaluate all nationally significant project proposals, including a review of the project's cost benefit analysis, where Commonwealth funding of \$100 million or more is sought.

Australian governments are also supporting national consistency in the delivery of cost benefit analysis through the launch of the *Australian Transport Assessment and Planning* (ATAP) Guidelines, which reflect best practice in project evaluation. The ATAP Guidelines provide guidance on the assessment and delivery of major transport infrastructure in Australia. Further updates to the ATAP Guidelines include consideration of appropriate methodologies for incorporating productivity gains, including the wider economic impacts of projects, which will be incorporated in further updates to the Guidelines, likely to be completed during 2017. It is anticipated that the Transport and Infrastructure Council endorsed updates to the Guidelines will inform IA's evaluation methodology.

Recommendation 9

The Committee recommends that the Australian Government legislate to enhance the role of Infrastructure Australia as a specialist interdisciplinary procurement agency, with the capacity to provide high level policy advice and direct support to government agencies undertaking infrastructure procurement, including development of best practice policies in finance, funding and procurement and benchmarking infrastructure procurement.

The Australian Government notes this recommendation.

The Australian Government has already put in place legislative reforms to IA to improve its independence, including its capacity to undertake detailed analysis of major economic infrastructure.

IA undertakes this work through its assessment of individual projects, its audits of Australia's major infrastructure and the development and updating of the *Australian Infrastructure Plan*. In addition, IA and the states' infrastructure advisory bodies, such as Infrastructure NSW and Building Queensland, already provide independent research and advice to all levels of government, as well as private sector infrastructure investors, owners and managers, on matters relating to the planning, financing, procurement and delivery of major infrastructure.

The Commonwealth Department of Infrastructure and Regional Development (the Department) has a leading role in developing national policy on infrastructure investment. This includes providing policy advice on the use of various funding and financing mechanisms and procurement methods to deliver nationally significant public infrastructure. On behalf Australian governments, the Department through its Bureau of Infrastructure, Transport and Regional Economics is leading work to benchmark project costs and procurement outcomes in order assist all governments in the selection, assessment and planning of major economic infrastructure projects. Further information is available at: <<https://bitre.gov.au>>.

Recommendation 10

The Committee recommends that the Australian Government, through COAG, work with state and territory governments to develop better risk management strategies in infrastructure procurement, with a focus on greater collaboration between government and the private sector in the identification and allocation of risk in the design, construction and management of public infrastructure.

The Australian Government supports this recommendation.

Australian governments updated the national guidelines for the procurement of major infrastructure in early 2016. This includes updates to the existing guidelines on Public Private Partnerships and on Alliance Contracting, as well as finalising guidelines on Traditional Contracting. These guidelines provide consistency in the way governments procure major infrastructure projects, but also address better practice in the management of risk and the role of partnerships between the public and private sector in developing and procuring major works. The Guidelines will be regularly reviewed to incorporate best practice developments in infrastructure procurement and contracting. The Guidelines are available at: <<https://infrastructure.gov.au/infrastructure/ngpd/index.aspx>>.

Recommendations – Labor Members’ Dissenting Report

Labor Members’ – Recommendation 4

The Committee recommends that the Australian Government legislate to establish a dedicated Commonwealth Authority to work with the states on the designation of land corridors for the development of significant infrastructure projects, including high speed rail.

The Australian Government does not support this recommendation.

Please refer to the Australian Government’s response above to Recommendation 4 on the protection of land transport corridors for future uses.

Labor Members' – Recommendation 6

The Committee recommends that the Australian Government, through Infrastructure Australia, develop innovative financing and funding models for the development of public infrastructure with a view to making the financing and funding of public infrastructure more flexible and responsive to the actual costs and risks in the delivery and operation of that infrastructure. Options to consider and further develop include:

- User charging,
- Inverted bidding,
- Promotion of infrastructure bonds, and
- Capital recycling.

The Australian Government should note the considerable and detailed Productivity Commission criticism of the structure of the “asset recycling initiative”, and its potential to incentivise privatisations of monopoly assets without adequate consumer and community protections.

The Australian Government should fund projects on a mode-neutral basis to avoid distortion and inefficient investment decisions. This includes funding urban passenger rail projects when identified as the best solution to a congestion problem. Just funding road projects sends a signal to cash-strapped states that roads are preferred and cheaper. This has been noted by Infrastructure Australia as distortionary.

The Australian Government notes this recommendation.

The Australian Government is committed to supporting the best solution to address deficiencies identified on our transport networks, whether they are road, public transport, technology projects or other initiatives. It considers nationally significant public transport projects, including urban passenger rail projects, alongside other proposals submitted for funding under the Infrastructure Investment Program.

The Asset Recycling Initiative has helped state and territory governments unlock capital in their balance sheets to fund local infrastructure priorities, including public transport. State and territory governments consider potential consumer and community issues when determining which assets are appropriate for sale to ensure that the sales are in the public interest.

The Initiative has helped fund the \$12 billion Sydney Metro project, the more than \$1 billion Parramatta Light Rail project, the \$700 million Capital Metro light rail project in Canberra, and road upgrade works across the Northern Territory.

Please refer to the Australian Government's response to Recommendation 6 for further details on its land transport investment policy.