

03/10/2014

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600
rrat.sen@aph.gov.au

Dear Sir,

**RESPONSE TO THE INQUIRY INTO THE INFRASTRUCTURE AUSTRALIA AMENDMENT
(COST BENEFIT ANALYSIS AND OTHER MEASURES) BILL 2014**

This letter is in response to the inquiry into the Infrastructure Australia Amendment (Cost Benefit Analysis and Other Measures) Bill 2014, specifically regarding the requirement that:

“...Infrastructure Australia to conduct a cost benefit analysis of those infrastructure projects that are nationally significant and which also involve Commonwealth funding of at least \$100 million.”

This was always what IA set out to do and in the experience of PN was a very effective approach to decision-making when it happened. However the worst example of this practice not happening was with the major road projects announced in the lead-up to the last Federal election. These were never treated to detailed BCR analysis as the business cases were not developed enough to show IA. This should not happen over such huge government investments. It is our belief that the *requirement* for the use of benefit cost analysis (BCA) for project's over \$100M will lead to better decision making, and enable Infrastructure Australia's (IA) existing Reform and Investment Framework¹ to be implemented across a wider range of projects. It should still be employed on these projects as well.

Whilst the requirement that the IA Reform and Investment Framework for all infrastructure projects would be enormously beneficial to infrastructure decision making, it does have some limitations. These limitations are due to the project development and selection directly affect the infrastructure project benefit cost ratio (BCR), and are due to the nature of the some of the inputs into BCA. These limitations include:

- The use of Wider Economic Impacts is not being done comprehensively and rigorously enough in Australia, (when compared to the UK) to capture the true economic benefits from the infrastructure investment.
- In addition to Infrastructure Australia's Reform and Investment Framework, the Australian Transport and Infrastructure Council's (TAIC) National Guidelines for Transport System Management in Australia, provides an excellent framework for transport infrastructure assessment² and should be adopted for all transport infrastructure assessment by the Australian State Governments.
- The use of BCA should be adopted as infrastructure investment policy by all Australian states through the TAIC, and form the basis for developing their infrastructure priority lists for submission to IA for recommendation for Commonwealth funding.

¹

http://www.infrastructureaustralia.gov.au/priority_list/files/Reform_and_Investment_Framework_Guidance_August_2014.pdf

² <http://www.transportinfrastructurecouncil.gov.au/publications/>

- The lack of the use of the Gateway Assurance Review Process³ by all Australian State Governments for infrastructure projects (over \$50M) to enhance the development of the project business case (which includes the use of BCA), prior to submission to IA for projects seeking Commonwealth funding.
- The infrastructure development and assessment process does not currently require the existing infrastructure networks and systems to be adapted/integrated to optimize the network benefits of the investment in infrastructure.
- The existing infrastructure project development phases do not specifically require land use change in the affected land use markets to optimize the city shaping benefits of the infrastructure investment to fully realize the benefits that the infrastructure creates
- The current infrastructure assessment does not understand or exploit the benefits of integration of the land use and infrastructure to achieve the highest and best land uses enabled by the infrastructure investment.
- BCA does not fully take into account the economic efficiency gains of alternative financial mechanisms, including Value Capture, which can also assist in defraying the cost of the investment.

The resolution and implementation of these issues raised into the project assessment process will greatly assist in the economic, financial and city shaping benefit that the investment in infrastructure can bring.

Please don't hesitate to contact Peter if you require any further clarification with regard to this submission.

Yours Sincerely,

Professor Peter Newman AO

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James McIntosh

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³ <http://www.finance.gov.au/gateway/review-process.html>