

A Herington submission

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

16/10/2014

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

Dear Sir,

This submission is made on the basis of my close involvement with the community groups opposed to the development of the East West Link. During this process it has become painfully evident that the procedures for proper economic assessment of the project have broken down in the face of political interference and misplaced assumptions about the value of the project.

I would urge the Committee to consider the East West Link project as a case study of the faults of the current arrangements and the need for legislative change to ensure that all projects are properly assessed for their actual benefits, on a comparable basis.

The role of *Infrastructure Australia* is critical. It must ensure that well founded priorities are set, based on clearly established facts and verified claims about the costs and benefits of projects. It is only in this way that scarce taxpayer funds can be allocated fairly and spent wisely.

The issues being considered by the Senate Inquiry are directly linked to where this project has gone wrong and why this proposed \$18 billion tollway has turned into the most expensive road ever built in Australia. The Commonwealth has allocated \$3 billion – essentially “sight unseen” to a project which has only been rated by Infrastructure Australia as having “Real Potential” – the third of four classifications. It has queue jumped more important public transport projects that would make a much greater contribution to the nation’s economic growth.

Yours Sincerely

Andrew Herington

The history of the East West Link project

1. The East West Link project has been assessed and found wanting over the years. In 2008 the East West needs assessment report undertaken by Sir Rod Eddington only recommended the western section and rated it as just the third priority – after the Regional Rail Link and the Melbourne Metro rail tunnel. It recommended against the Eastern section being built in the foreseeable future.
2. This recommendation has often been misquoted by the Victorian Government which tries to conceal that the study found the full East West Link project (stage 1 and stage 2) would only generate a BCR of 0.5. Stage 1 has since been found to have an uneconomic BCR of 0.8 – although the Victorian Government tries to dress this up as a BCR of 1.4 by including “wider economic benefits”. No cost benefit study has been done for Stage 2 since then – despite the Victorian Government committing a further \$10 billion to its construction

Source: [Investing in Transport](#) 2008, Sir Rod Eddington

3. Prior to the 2010 election the Coalition had explicitly said they would not build the East West Link and that their priorities were in public transport, including new rail lines to Doncaster, Rowville, Melbourne Airport, Avalon and the redevelopment of Flinders St. None of these projects have proceeded and none have had economic studies. Work was halted during the planning process in each case (or has been indefinitely deferred).

“You’re not going to drive yourself out of problems ... our view is that the answer is an efficient, reliable public transport system...”

Terry Mulder 17 November 2010 ABC 774 Transport Forum

4. No Victorian voted for this project and the Napthine Government has no mandate to build the East West Link tunnel. The Coalition repeatedly promised at the 2010 Victorian election that they would not build the East West Link.

“We are not going to this election with a plan [for an east-west tunnel].”

Terry Mulder 17 November 2010 on the ABC 774 radio Transport Forum

“We went to the election to say that we had no plans for the tunnel. And that is our policy.”

Terry Mulder January 2011. Quoted in The Age 25 August 2013

5. The project was revived in early 2013 shortly after Dr Denis Napthine was elected Premier. It was prioritised in order to give the Premier an “iconic project” to overcome the tag that his predecessor, Ted Baillieu, had failed to invest in infrastructure.
6. The Napthine Government amended the *Major Transport Projects Facilitation Act* to hasten the process and pushed a proposed Stage 1 – Clifton Hill to Royal Park through the various steps with such haste that many documents were incomplete and changes made late.
7. The project remains listed as a project of ‘real potential’ on the authority’s priority list – the third of four priority categories.

Source: Infrastructure Australia June 2013

National Infrastructure Plan report to COAG, p.101

8. Infrastructure Australia was unable to re-assess the value of the Stage 1 project in their 2013 report to COAG due to the Napthine Government's failure to submit it by the June 2013 deadline. Infrastructure Australia was instead forced to rely upon figures contained in the 2012-13 Victorian Budget.

Source: Infrastructure Australia June 2013
National Infrastructure Plan report to COAG, p.135

The East West Link Stage 1 Business case

9. No business case or cost benefit analysis has ever been released for Stage 1 of the East West Link. The Government have repeatedly refused Freedom of Information requests for the business case or associated consultant reports. Government Ministers have refused to answer questions in the Victorian Parliament for even the most basic project information.
10. Three attempts by the Senate to obtain the business case and assessment documents held by Infrastructure Australia have been rebuffed on the grounds that the issue is commercially sensitive. This excuse was most recently given in response to a motion from Senator Rice – even though the contracts had been signed.
11. Instead the Government has released a 12 page promotional leaflet, with artist impressions and animated videos. This was described as the “Executive Summary of the Short Form Business case” but contained misleading and deceptive claims about the cost benefit ratio of the project, the traffic volumes and the net present value of Stage 1. It did not meet any test of being a proper Business case.
12. The leaflet claimed there was a BCR of 1.4 but the Victorian Government has steadfastly refused to disclose the methodology. This claim is based on unreleased calculations that include unspecified “wider economic benefits” that are attributed to the freeway project because of alleged positive economic growth impacts it will have.
Source: Executive Summary of Short form Business case, LMA 2013
13. Infrastructure Australia, the Victorian Department of Treasury and Finance (DTF) and many bodies in other jurisdictions do not permit the inclusion of “wider economic benefits” in the assessment of projects. The concept is neither well developed nor accepted as valid.
14. Infrastructure Australia still did not have the full business case but the then CEO Dr Deegan was able to disclose in evidence to the Senate that excluding Wider Economic Benefits the BCR for Stage 1 was only 0.8.
15. A May 2012 communications strategy appears to suggest that the State Government had expected the East West Link to produce a positive benefit-cost ratio before any such analysis was completed

“A benefit cost ratio evaluation for the project will be undertaken for the business case... Communications will make it clear that the benefits of the project are expected to far outweigh the cost.”

Source: The Age 25 January 2014 ‘*Victorian government failed to prove case for east-west link, infrastructure umpire finds*’

Criticisms of the Business Case

16. In early 2013, the Government had commissioned a series of consultant reports to comment on its business case and the methodology used to assess the BCR. These have been repeatedly refused under FOI.
17. It emerged in early 2014 that these secret reports contained serious criticisms of the way in which the “wider economic benefits” had been calculated and the highly unusual proportion of benefits they were said to represent.
18. One email was released from Chris Tehan, the principal consultant for Evans and Peck, which highlighted the claimed benefits are dependent on additional widening for the Eastern and Tullamarine freeways, they assume much higher WEBs than normal, overstate the time savings and highlight the “lack of explicit connection between the economic impacts and the identified objectives of the scheme”
Source: Email 24th Jan 2013 from Chris Tehan, Evans Peck, to Paul Smith DOT
19. A leaked memo from VicRoads’ senior transport economist Doug Harley questioned the East West Link BCR estimates, saying the projection “smacks of a desire to enhance the quantum of benefits”. Mr Harley e-mailed the road authority’s strategy and planning head, David Sheldon, warning that traffic figures being used to justify the road could not be trusted. “From the little we can find out about it, it appears to be using an inflated value of time to artificially inflate the benefits that can be expected from the project.”
Source: The Age *‘Benefits of East West link inflated’* August 19 2013
20. VicRoads engineer Doug Harley, a 27 year veteran of road building projects in Victoria, and the VicRoads’ manager of network modelling and analysis. He said the road had been assessed "using a dodgy model to produce a benefit-cost ratio" that made it look a huge economic success.
21. Mr Harley, who took a redundancy package from the road authority in July 2013, said he had been "drummed out" after demanding the road be adequately justified.
“Nobody in VicRoads with any traffic modelling expertise signed off on it. Their own manager of network modelling and analysis - me - was saying, 'No, you cannot trust this'.”
Source: The Age 31 August 2013 *‘Engineer slams ‘dodgy model’ for tunnel’*
22. Leaked Cabinet documents have shown that the Business Case and the claimed BCR for the project had been boosted by as much as 15 per cent by using a number of questionable assumptions including;
 - The future cost of car parking will decrease,
 - The future cost of running a car, including petrol costs, will decrease,
 - Victorians will be more willing to pay tolls in the futureThe leaked documents even acknowledged that this modelling was inconsistent with initial modelling for the Eastern Freeway undertaken for the Doncaster Rail Feasibility Study.
Source: The Age 2 October 2013 *‘Secret Case for link revealed’*

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23. Another leaked internal assessment of the East West Link project undertaken in March 2013 examined nine options for the road link. The assessment found that even the cheapest option (building the road by bulldozing a path ‘at grade’ through Carlton and Fitzroy would recoup just 73 cents for every \$1 spent. Under the scenario involving maximum tunnelling calculations suggest just 45 cents would be returned for every \$1 spent
24. A source familiar with the Business case said that consulting firm PwC did further work in June 2013, and its best case scenario was a \$1.40 return for every \$1 spent. This was the figure then used in government promotional material. The other less favourable, but more realistic scenarios have been suppressed.
25. PwC estimated a benefit cost ratio of just 0.8 when ‘wider economic benefits’ were excluded from the analysis in line with Infrastructure Australia’s preferred approach.

Source: The Age 7 July 2014 ‘*Economic case for East West link may be shaky*’

26. An international study led by University College London, has found that for investors to get a return on the East West Link, motorists would have to be charged a minimum of \$10.50 to use the 8km tunnel, three times the current cost of an average trip on CityLink.

Source: The Age 15 May 2013 ‘*Warning on high tunnel toll*’

27. Leaked traffic modelling for the East West Link undertaken by consulting firm Veitch Lister Consulting (VLC) reveals that building the tunnel will actually increase traffic on key sections of Melbourne’s road network.

Road	Change in AM peak traffic	Change in PM peak traffic
Hoddle St near the Eastern Freeway	35% increase	
Manningham Rd near Bulleen Rd	25% increase	20% increase
Eastern Freeway near the East West Link tunnel	69% increase	60% increase
Templestowe Rd	25% increase	15% increase
Thompson Rd near Bulleen Rd	43% increase	29% increase
Earl St/ Asquith St	41% increase	35% increase
Racecourse Rd near CityLink	20% increase	17% increase
Mt Alexander Rd west of City Link	25% increase	19% increase
Ormond Rd west of City Link	14% increase	22% increase
City Link south of Bell St	16% increase	14% increase

Source: The Age 9 December 2013

‘Secret report on East-West link reveals traffic explosion’

28. Litigation has been brought by a Brunswick resident to challenge the claims made in the promotional leaflet. This matter has been heard in the Victorian Supreme Court, where an initial finding was overturned by the Court of Appeal on procedural grounds and it is currently being reheard in the Supreme Court.
29. The High Court will consider on October 17th the issue of whether an injunction should be issued whilst these proceedings are underway. *Murphy v LMA*

The East West Link Stage 2 Business case

30. Stage 2 of the East West Link, also called the Western Section runs from the Port of Melbourne at Appleton Rd to Sunshine with a viaduct to the Maribyrnong River and a tunnel from there to Somerville Rd and then on the surface.
31. The exact route has not been determined but the Transport Minister has said it won't be the same as that proposed for WestLink – an earlier proposal from the Brumby Government period that was developed following the Eddington report.
32. The Western section has not been made a declared project, the scope of the Comprehensive Impact Statement hasn't been determined and the contracting process has not commenced. As these normally take a minimum of 16 months (as occurred with the Stage 1A) it is highly unlikely that any contract will be let before early 2016 – contrary to claims by the Premier that work will commence in 2015.
33. Work had not commenced on a Business case for Stage 2 at the time of the Senate estimates Hearings in May. Infrastructure Australia had then received a letter of “a few pages” outlining the project.
34. The only document provided to Infrastructure Australia was a “draft conceptual Business case which the Senate was told was an inadequate document to assess the project's merits.
35. Infrastructure Australia has since said it has received an outline of the project amounting to 100 pages but this also fails the test of being a robust business case. No indication has been given for the timing when Victoria might formally submit the project for consideration.
36. It would appear the first occasion for this would be when Victoria submits a revised program in June 2015 for consideration by Infrastructure Australia who will report to COAG later that year. As there may be a change of Government before then, the list of priorities could change significantly.

Commitment of Federal funds

37. In the election campaign in September 2013, Tony Abbott announced he would scrap a commitment of \$3 billion taken from the Melbourne Metro project which Infrastructure Australia had classified as “Ready to proceed”.

Source: The Age, 27 September 2013, 'Tony Abbot says he doesn't need to see the East-West link's full business case'.

38. In a separate election promise, the Federal Coalition said that any investment valued at more than \$100 million would require a published cost benefit analysis.
39. In addition the Coalition emphasised that they would change the way that money was paid out for major projects, criticising some State governments for taking Federal funds and then not using the money when they had committed to.
40. The same \$3 billion was committed to the East West Link project with half going to each stage of the project. This was in line with his statement that the Federal Government would “stick to its knitting” and only fund road projects and not any public transport projects.

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41. On April 29th 2014, the Prime Minister announced confirmation of the \$1.5 billion funding for EWL Stage 2. However he emphasised that the funding was dependent on “a formal business case being received” and working commencing by the end of 2015
42. This allocation, and an earlier commitment in government of \$1.5 billion for Stage 1 were duly included in the May 2014 budget but the details or cash flow were not disclosed.
43. At the May Senate Estimates Hearings it was revealed that the funding had been brought forward and that \$500 million would be allocated in 2013/14 for Stage 1 and \$1,000 million for Stage 2 – despite its very early stage of development. The remaining \$1,000 million in funds for Stage 1 were spread over 4 years, but the final payment of \$500 million for Stage 2 would not be made until 2018.
44. The Acting CEO of Infrastructure Australia advised that funds would not be paid over for either part until there was a full business case provided to the Committee and assessed.
45. The responsible Minister, the Assistant Minister for Infrastructure and Regional Development Jamie Briggs has emphasised the importance of a business case and milestones being achieved before delivery of project payments. He said
“So we are driving the state governments very hard to give us timetables to ensure that we're meeting the expected time of delivery of these projects. That we're hitting milestones, that we're only making payments to states when they actually deliver the milestones, that they're not getting money in their bank account prior to milestones being delivered, because we want taxpayers to have accountability for what they're getting, but we also want projects on the ground and not being held up, unfortunately, or deliberately, for that matter.”
Source: Speech to the Civil Contractors Federation speech, June 6, 2014
46. Despite this, the Federal Government signed a secret Memorandum of Understanding about the East West Link project on the 28th June 2014 and handed over \$1.5 billion to Victoria on 30th June. The MOU remains secret and the terms of the funding are unknown.
47. It appears that either the short or the long form of the Business case for Stage 1 was handed over to Infrastructure Australia in June 2014 but no such document has been produced or provided for Stage 2.
48. No significant progress had been made at that time, or since on the approvals for Stage 2.
49. A set of conditional planning approvals for Stage 1A only were issued on the same day by the Victorian Planning Minister, Mathew Guy but were subsequently varied twice. A contract was entered into on October 1st with the East West Connect for a significantly altered design, many details of which had not been considered by the Assessment Committee. Construction work is now unlikely until early 2015.
50. There are a number of elements of the planning approvals and the contract which are subject to continuing litigation and the contract does not appear to be final or binding – although its contents and an alleged “side letter” remain secret.

Taxpayers will pick up multiple bills for the East West Link

51. The Victorian Government has misleadingly claimed that “Victorian taxpayers will only pay \$2 billion” towards Stage 1. This ignores the fact that the Federal funding of \$1.5 billion is simply Victoria’s share of the national pool and it also is drawn from taxpayer’s pockets.
52. In addition the \$3.3 billion said to come from the East West Connect private consortium will actually come from the pockets of Victorian motorists, who will pay as yet undisclosed tolls to use the road. The tolls are collected by the Government, not the consortium, which is guaranteed undisclosed escalating payments under the secret contract.
53. In addition, the Expression of Interest (EOI) document used to invite the private sector to bid for the project leaves the state dangerously exposed to future costs. Under the EOI the taxpayer is liable if toll revenue is lower than anticipated, interest charged on private sector debt is higher than predicted or if construction is delayed.
54. The \$6.8 billion disclosed so far is not the full cost of the freeway as it is expressed in Net Present Value terms and excludes financing costs and any future escalation of costs (which must be met by the State not the consortium).
55. It also fails to include the cost of the so called “Port Section” (previously called Stage 1B or Part B) which runs from Royal Park to the Port of Melbourne by a viaduct above Moonee Ponds Creek. The Port Section is part of Stage 1 as it was declared under the *Major Transport Projects Facilitation Act* and is covered by the same Planning Approval.
56. It is also believed to be legally a part of Stage 1 under the funding agreement for the Commonwealth. As all \$1.5 billion has been allocated against Stage 1A there are no further funds for the Port Section and hence it will have to be fully funded by the State and tolls.
57. The Port Section is estimated to cost \$2 to 3 billion and will push the total cost for Stage 1 well beyond the \$6-8 billion allocation included in the Victorian Budget – for which no cash flow has been given. More details are only expected to be revealed when the *Pre Election Budget Update* (PEBU) is released – some 10 days into the election campaign in November.
58. The State Budget has made a provision of \$8 to 10 billion for the Western Section. As noted above, \$1 billion of this has been paid on 30th June 2014 despite there being no planning approval or contract in place with a further \$500 million to come in 2018.
59. This will leave up to \$8.5 billion to come from Victorian taxpayers and motorists. The viability of Victoria funding this amount, on top of the massive commitment to Stage 1 is in serious doubt. It will have a devastating impact on the Victorian budget and the ability of Victoria to fund other higher priority public transport projects with much higher BCRs.

The flawed planning approval process

60. The planning approval process for the East West Link has been completely compromised.
- Residents and local councils have been provided only a 'reference design' rather than the final proposed plans for the project.
 - The Linking Melbourne Authority prepared a Comprehensive Impact Statement in accordance with the Major Transport Projects Facilitation Act 2009 in response to the project reference design, not the final plans for the project.
 - Residents and local councils have been denied access to key information such as traffic modelling and the cost benefit retails.
 - The consortia bidding for the project are under no obligation to prepare their bids in accordance with the reference design.
61. The Assessment Committee was not given access to the Stage 1 East West Link business case. This issue was raised by numerous community members who pointed out the Committee would be unable to carry out its responsibilities to balance the economic, social and environmental impacts without access to the business case.
62. The Linking Melbourne Authority lawyers, who themselves were unable to access the business case, insisted that the Committee the Executive summary of the Short Form Business Case in preparing their recommendations on the project.
63. In making his Planning Approval, the Minister for Planning, Matthew Guy stated that he had given no regard to the Business case.
64. This issue is currently subject to litigation brought by the Cities of Yarra and Moreland who contend that under the *Transport Integration Act* the Minister is obliged to consider the economic as well as the social and environmental impacts of projects in arriving at a decision on the merits of a planning scheme amendment for a major transport project.

Current guidelines for assessing major infrastructure projects

65. It is now standard practice for both State and Federal Government to require business cases for major capital works. There are formal processes used by both Governments with specific steps required. However they are not a statutory requirement.

VICTORIAN GOVERNMENT

66. The relevant guidelines are issued by the Department of Treasury and Finance and are known as the High Risk/High Value Lifecycle Guidelines (HRHV). These apply to projects costing more than \$100 million or which are otherwise deemed important or high risk.
67. There are a number of supporting Technical documents about various parts of this process which can be accessed at:
<http://www.dtf.vic.gov.au/Investment-Planning-and-Evaluation/Investment-professionals-toolkit/Investment-lifecycle-and-High-Value-High-Risk-products>
68. Both stages of the East West Link obviously fall within the HRHV Guidelines. However, as far as can be seen on the public record Stage 2 has passed Gate 2 which requires a Full business

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case and is in the Procurement phase. Stage 1 has presumably passed Gate 4 – a Tender Decision – but there is nothing to demonstrate how this occurred...

69. The lifecycle guidelines and supporting tools were adopted in their current form in 2008 and significantly revised in 2012 to give greater control to the Treasurer. The EWL would initially have been under the 2008 Guidelines but would now have to meet the current ones regardless.
70. The Guidelines recognise both a “preliminary business case” and a “full business case” and require the Treasurer to approve them before they are “considered by Government” s3.2.8

AUSTRALIAN GOVERNMENT

71. The key requirement for proponents seeking Federal funding is to meet the December 2013 Infrastructure Australia [guidelines Better Infrastructure Decision-Making: Guidelines for making submissions to Infrastructure Australia’s infrastructure planning process, through Infrastructure Australia's Reform and Investment Framework](#) .
72. These are qualified by the Infrastructure Australia [Submission templates, Stage 7 \(Cost benefit analysis and deliverability\) -Transport](#) The framework requires the Stage 1 to 7 templates to be completed before a project enters the Threshold readiness category and for a full business case to be assessed by IA before it is classified as “ready to proceed” ie recommended for funding.
73. However it can be demonstrated that the EWL has failed to go through the logical series of steps required and remains at the third rung of "real potential" apparently without an acceptable Stage 7 submission

The flaws in the Infrastructure Australia process.

74. There is no link between the assessments made by Infrastructure Australia and the decisions of Government. There should be a requirement that IA has classified a project as *Ready to Proceed* with a BCR greater than 1.0 before any Commonwealth funds can be paid to the project.
75. There are large time delays in the process for making assessments. As this is only done once a year (in December) the failure of a State to update its priority list by June means it can be 18 months before an assessment is updated. There should be provision for Infrastructure Australia to update individual projects within 6 months of a new proposal being submitted
76. There is currently no requirement for a business case and cost benefit analysis to be submitted for a proposal prior to it being considered as “Threshold” or “Ready to proceed”.
77. There is a lack of detail in the Guidelines in relation to how projects are to be presented and variations in the way in which the Templates used by Infrastructure Australia carries out its assessments. Each state has its own process and this undercuts the ability to assess projects on a truly comparable basis.
78. As recently as September 12th, Mr Fitzgerald issued a media statement (See Attachment 2) which confirms that Infrastructure Australia’s current view remains that the project only has

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“real potential” The recently provided Business case for Stage 1 is still being assessed before being considered by the new Board.

79. This statement goes on to make very inappropriate political comments which effectively criticise the Victorian Opposition for saying their policy is not to proceed with the project.
80. This is even more inappropriate given Mr Fitzgerald’s personal conflict of interest having previously worked for the Napthine Government in developing the East West Link and then worked for KPMG providing advice on the project before moving to Infrastructure Australia.

Other criticisms of the current system

81. The Productivity Commission has rejected the Napthine Government’s argument that the business case should be kept secret as a commercial in confidence document. In the final report of its Inquiry into Public Infrastructure the Commission stated that business cases for major projects should be released ‘so that “projects that, while appealing to particular groups or regions, are poor value for money for the community overall” can be brought to the attention of the public.’ (See Attachment 1)
82. The Productivity Commission recommended:

All governments should commit to subjecting all public infrastructure investment proposals above \$50 million to rigorous cost–benefit analyses that are publicly released and made available for due diligence by bidders. In general, analyses should be done prior to projects being announced. If a project is announced before analysis is done, for example, in the lead-up to an election, this should be conditional on the findings of a subsequent analysis.

Source: <http://www.pc.gov.au/projects/inquiry/infrastructure/report>

83. Other recent criticisms of the way in which major projects are funded and the way in which State-Federal financing arrangement are currently working have been made by the Commission for Audit , the Federation Issues Paper and the Victorian Auditor general.

RECOMMENDATIONS

It is submitted the Senate Committee should recommend

1. That the *Infrastructure Australia Amendment (Cost Benefit Analysis and Other Measures) Bill 2014* be supported with the amendments moved by Mr Albanese in the House of Representatives.
2. In particular, the threshold should be that the requirement for an acceptable cost benefit analysis applies to any project with a total value of \$100 million or greater.
3. Projects should be assessed within 6 months of being submitted to Infrastructure Australia
4. Projects should only be assessed as *Threshold* or *Ready to proceed* if in addition to other considerations, its cost benefit analysis is conducted by the standard method and has a BCR greater than 1.0
5. No Federal funding should be provided to a project that has not been classified as *Ready to proceed* by Infrastructure Australia on the basis of a cost benefit analysis is conducted by the standard method and has a BCR greater than 1.0
6. All states should be required to adopt a Gateway style system for progressive assessment of capital projects which are based on a common approach that is consistent with the national Infrastructure Australia requirements.

Attachment 1:

Extracts from the Productivity Commission report *Public Infrastructure* July 2014

RECOMMENDATION 2.3

All governments should commit to subjecting all public infrastructure investment proposals above \$50 million to rigorous cost–benefit analyses that are publicly released and made available for due diligence by bidders. In general, analyses should be done prior to projects being announced. If a project is announced before analysis is done, for example, in the lead-up to an election, this should be conditional on the findings of a subsequent analysis.

RECOMMENDATION 7.1

All governments should put in place best practice institutional and governance arrangements for the provision of public infrastructure. This includes:

- *clearly defining the principal objective of ensuring that decisions are undertaken in the public interest, taken to be the wellbeing of the community as a whole*
- *setting clear and transparent public infrastructure service standards*
- *instituting effective processes, procedures and policy guidelines for planning and selecting public infrastructure projects, including rigorous and transparent use of cost–benefit analysis and evaluations, public consultation, and public reporting of the decision*
- *use of transparent, innovative, and competitive processes for the selection of private sector partners for the design, financing, construction, maintenance and/or operation of public infrastructure*
- *ensuring efficient allocation and subsequent monitoring of project risks between government and the private sector*
- *regularly reviewing funding and financing policies, including application of transparent user-charging mechanisms as the default setting where this is efficient*
- *monitoring of project performance and ex-post independent evaluation and publication of project outcomes (including periodic reporting of benchmark costs by Infrastructure Australia)*
- *retaining sufficiently skilled public sector employees to be responsible and accountable for performing these functions*
- *establishing mechanisms for transparent review or audit of the decision-making process by an independent body, for example, an Auditor-General or Infrastructure Australia.*

RECOMMENDATION 7.3

Australian Government funding or other forms of financial assistance (including incentive payments under Commonwealth–State agreements) for public infrastructure that is provided to State and Territory and Local Governments should be conditional on the adoption of the governance arrangements outlined in recommendation 7.1.

This assistance should only be provided where there is evidence of a demonstrable net public benefit from the project that would otherwise not be obtainable without Australian Government support.

Attachment 2:

Infrastructure Australia Media release 12th September 2014

Media Statement: Statement from Infrastructure Australia on East West Road Link

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Media Statement: Statement from Infrastructure Australia on East West Road Link

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12 September 2014

Victoria's East West Road Link has yet to be considered by Infrastructure Australia's new board.

A new IA board was announced last week, following proclamation of the Infrastructure Australia Amendment Bill 2014, which sees the authority transition to an independent statutory body.

Acting CEO, Mr John Fitzgerald, said the previous IA board held the view that an East West Road Link is meritorious and the latest project information requires consideration from the new board.

"The last Infrastructure Priority List Update in December lists the East West Road Link as a project with real potential," Mr Fitzgerald said.

"Since publishing that update, Infrastructure Australia has received a full business case for stage one of the project and assessment is currently underway.

"Once assessment is completed and proper consideration is given by our new board, we will again update our prioritisation of this project."

Mr Fitzgerald said Australia has a good track record in infrastructure procurement and delivery, which can be attributed in part to contracts being honoured across changing governments.

"Some examples where Victoria has maintained its reputation as a place to invest because of infrastructure projects spanning more than one government include City Link and the Myki ticketing system," Mr Fitzgerald said.

"Historically, incoming governments have honoured the contracts of their predecessors, and a divergence from this established approach could adversely effect investor confidence.

"I will certainly monitor any changes to delivery of the East West Road Link very closely, and consider any subsequent changes to investment practices when preparing advice to the IA board on future projects."

Infrastructure Australia provides independent, expert advice to governments on major infrastructure works across Australia. The authority does not decide on funding matters.