Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List

Audit Report No.02 2010–11

Opening comments by Ian McPhee, Auditor-General

JCPAA Review 21 March 2011

1. Chair, Members of the Committee: I was asked to undertake a performance audit by the Infrastructure Coordinator, Mr Michael Deegan, in November 2008. He wrote to me inviting an independent assessment of the integrity and robustness of the processes that had been adopted in undertaking the first National Infrastructure Audit and developing the first Infrastructure Priority List. I agreed to this request as it was consistent with the published audit strategy for the Infrastructure, Transport, Regional Development and Local Government portfolio.

2. The objective for the audit was to assess the effectiveness of the conduct of the first National Infrastructure Audit and development of the Infrastructure Priority List, with particular emphasis on:

   o the submissions process, and the methodology used to assess submissions;

   o the overall conduct of the Audit process;

   o the formulation of the Interim and Final Infrastructure Priority Lists; and

   o the provision of advice and recommendations to the Government.

3. The audit tabled in July 2010.

4. By way of background, Infrastructure Australia was established in 2008 to improve the quality of infrastructure planning and investment strategy, and to identify those investments expected to make the biggest impact on Australia's economic, social and environmental goals for least cost to the taxpayer.

5. Since its establishment, Infrastructure Australia has, amongst other tasks, conducted a National Infrastructure Audit (which was completed in December 2008) and published three priority lists (in December 2008, May 2009 and June 2010). This audit examined the conduct of the National Infrastructure Audit and development of the Interim Infrastructure Priority List published in December 2008 and the Final Infrastructure Priority List published in May 2009.

6. The audit found that Infrastructure Australia's methodology provided a robust framework for the development of the Interim and Final Infrastructure Priority Lists. It was not radically innovative in substance but reflected fundamental elements that have long been advocated as being central to good infrastructure policymaking. In addition, ANAO found that the Office of the Infrastructure Coordinator adopted a rigorous approach to analysing proponent submissions against the published criteria in developing the first Infrastructure Priority List.

7. However, ANAO found that a number of projects on the Infrastructure Priority List published in May 2009 did not satisfy the tests set out in Infrastructure Australia's own published Prioritisation Methodology. The published Prioritisation Methodology had outlined a range of factors that would be taken into account, with objective cost-benefit analysis, through Benefit Cost Ratios, being the 'primary driver' of decision making. Ultimately, the May 2009 Infrastructure Priority List contained 37 projects: nine of these were termed 'priority' projects; and 28 projects were termed 'pipeline 'projects. ANAO found that 13 of the 'pipeline' projects did not have a Benefit Cost Ratio, and for the remaining 15 'pipeline' projects, the Office of the Infrastructure Coordinator's assessment was that there was insufficient evidence to support the economic viability of the project.

8. The audit also found that there was no clear record maintained of the reasons for the Infrastructure Australia Council deciding which projects were to be included on the Final Priority List, and those projects that were to be excluded. The Chair of the Infrastructure Australia Council advised ANAO in June 2010 that the various drafts of the Final Priority List, coupled with the project assessment descriptions prepared by the Office of the Infrastructure Coordinator (which were both circulated to Infrastructure Australia Council members) represent a formal record of decision-making. However, the various drafts of the List did not record why projects were being included or removed and the assessments prepared by the Office of the Infrastructure Coordinator for some projects did not support their inclusion on the List. In this context, ANAO recommended that Infrastructure Australia promote greater transparency over the development of future Infrastructure Priority Lists by maintaining records that clearly outline when decisions are taken to include projects on the List, and the reasons for their inclusion. Infrastructure Australia agreed with the recommendation.

9. Once it published its Priority List identifying projects that merited consideration for funding and those that were worthy of further development and analysis, Infrastructure Australia did not have a role to play in allocating funding for infrastructure projects. Rather, decisions about which projects were to receive Commonwealth funding were made by the Government in the context of economic stimulus spending (two pipeline projects) as well as subsequently in the Budget process. In this latter respect, funding for seven (of the nine) priority projects and six pipeline projects was announced in the May 2009 Budget, with funding for a further two pipeline projects announced in the May 2010 Budget.

10. The audit concluded that there would be benefit in Infrastructure Australia setting out its methodology more clearly to inform project proponents and other stakeholders of its approach. In addition, there would be benefit in better records being made of the reasons for Infrastructure Australia Council decisions on the composition of project Priority Lists given the significance of the advice being provided and Infrastructure Australia's goal of promoting evidence-based public investment decisions.

11. To build on the solid methodological base that Infrastructure Australia has developed, ANAO made three audit recommendations designed to provide greater transparency in the project prioritisation process and enhance the reporting of the prioritisation results. These were all agreed, or agreed with qualification, by Infrastructure Australia. In this context, it has been pleasing to observe that:

   o the June 2010 report from Infrastructure Australia updating its list of priority projects (which was published just as the ANAO audit report was being finalised) addressed the recommendation that there be greater clarity about which projects Infrastructure Australia considered ready for Australian Government funding, and which were not yet ready (although supported 'in principle').

   o revised guidelines for making submissions to Infrastructure Australia were published in October 2010. Infrastructure Australia consulted ANAO in the preparation of the revised guidelines with these guidelines:

      ▪ requiring project proponents to clearly state in their submission which pipeline category they believe their initiative most appropriately fits; and

- explaining the different criteria that will be applied to discriminate between priority projects that are 'ready to proceed' and those that exhibit potential but require further development before being recommended as 'ready to proceed'.

12. Finally, I note that the Public Accounts Committee of the Western Australian Parliament produced in November 2010 a detailed report looking at project planning and funding applications for major infrastructure projects in that state. The report drew upon our audit report and reflected positively upon the value of infrastructure prioritisation methodologies (such as those used by Infrastructure Australia) that involve robust analysis of costs and benefits through proper planning and the preparation of a robust business case.