

SUBMISSION TO THE REVIEW OF INFRASTRUCTURE AUSTRALIA

I was wrong in 2007. As the senior infrastructure adviser to the minister immediately prior to the creation of Infrastructure Australia (IA) I was cautious when the ALP policy was announced ahead of the campaign. I thought it would set up an alternative advice structure to the department in an area I saw as the department's core business. If the department is not advising on project prioritisation and allocation of funding for major infrastructure projects, then what is its role in the infrastructure space?

While that caution still exists in my mind, and I think there remains a genuine question for the government about the Infrastructure Department's role in providing infrastructure advice (more below), what has changed for me is the realisation that, when looked at through the prism I present here, I don't believe the department was ever really doing that job effectively.

As I have said publicly, I believe the focus that IA has brought to their tasks has been welcome. This has been borne out in part by its Infrastructure Priority List, Infrastructure Audit, Infrastructure Plan, and a range of well-considered policy papers. The department had never been able to see its role with that clarity – or perhaps had never been given the option to consider its role in that way.

For all the positive IA has achieved, after being away from the IA board for several years, I have had the chance to reflect in some detail on my experience as an independent board member. My thoughts and hypotheses are outlined below. Summary recommendations are on the final page.

FIRST PRINCIPLES

What assurance does the federal government require regarding its infrastructure payments to states?

It starts with:

1. The government's requirements on behalf of the Australian people – ie the federal government needs a process to assure that the highest value projects are properly scoped, prioritised and funded and that value for money is derived from projects at completion and over their lifetime
2. IA's understanding of its purpose in (1), its understanding of DITRC's purpose in (1) and how to manage its own reputation risk, working to promote and mitigate it
3. Recognition that however the process in (1) is divided between DITRC and IA, the "end-to-end infrastructure assessment process" must be mapped and receive a continuous improvement focus at a federal government level (as well as at jurisdictional level of course). This has never been adequately achieved leaving a significant gap in the federal government's accountability
4. Both IA and DITRC committing to their own accountabilities (what they must do and what the other must do to assure a joined-up process with the states)

I believe there is significant room for greater clarity and performance improvement to meet these requirements. The Australian people are entitled to an expectation that the billions of dollars in infrastructure spending is being managed well – and therefore there is a reputation risk for IA (and the department) if, one day, for example, it was to become apparent that spending discipline did not meet the public's expectations.

My sense is that, to the extent they consider it at all, the current public perception is that IA has a broader remit and decision-making power than it really does – that IA is effectively involved in projects beyond their initial approval. This is another expectations gap that can impact IA's reputation over time.

GOVERNANCE

An independent board

The independent board should be viewed as a strategic asset for IA and the federal government.

While IA brought a focus to the value of independent expertise, under existing arrangements, there remains a significant lack of external influence on federal government infrastructure assessment and allocation. Delivering on this potential requires several changes.

1. The board members should be chosen from a range of relevant professional backgrounds to deliver a diversity of experiences and perspectives to IA (and the government itself). Some very relevant appointments have been made over the years in this regard
2. There is a need for people to have a synthesis of experiences with a special focus on experiences outside the normal public sector skillsets DITRC (and the jurisdictions) already has in-house. For example, a senior public servant will struggle to add additional firepower when public sector skills are already present except if they're seen as a balance to an otherwise too externally focused board (a problem in itself). Also, a business leader who has insufficient experience of public policy will struggle to make the impact that someone who has experienced both business and public policy will be able to. A commercial civil engineer with experience delivering infrastructure projects for governments would add enormous value but would have to be cautious about potential conflicts of interest (including potential advice on future projects for a proponent).
3. In my experience, IA board membership has often prioritised public sector experience and regionality (ie state of origin) over the points listed above. These are understandable (and often admirable) aims but they are secondary to the core ones.
4. Over time there came to be a view that some state governments had been guaranteed places on the IA board and further that they had been given the right to veto (and subsequently even select) individuals to those places. While it seems to have started with the smaller states it appeared to turn into a formal right for even the larger states to appoint people. This was initially established informally on the basis that the states didn't believe board members understood a state's interest unless they lived there. This is a very poor governance outcome. Instead of being selected as "representatives" of their states, under good governance arrangements, board members should only take a national view. More importantly, a board chair and a minister need to build a board that meets a complex suite of professional needs and not have that matrix pulled apart as each state picks people that meet their parochial requirements. Geographic origin is one of the considerations a minister and a chair should consider in building a high-performance board, it should not be the over-riding one it has become in recent years. A state's perception of the value of IA should never be allowed to come down to whether its board has someone representing that's state's interests.

Secretaries on the Infrastructure Australia board

Under the proposed structure, there should be no need for Secretaries to be on the IA board because the delineation between the roles of IA and the department are clear. The Departmental Secretary should be involved in two main ways:

1. They should lead the end-to-end infrastructure investment process focusing on delivering improvement outcomes (with sole accountability for DITRC's part in that in the hands of the Deputy Secretary, Infrastructure, and sole IA accountability with the Chair of IA); and
2. They should be accountable on behalf of the federal government for the efficient working of the infrastructure funding and assessment process in the Secretaries Committee on Infrastructure comprising departmental heads from around the country

This structure is designed to clarify where accountability is held and to ensure the accountable individual is clearly able to make the case to the elected government about the powers and resources necessary to fulfil their obligations – minimising the buck passing and finger pointing that occurs when accountabilities are unclear or duplicated.

If you start with the need – ie the federal government needs a process to assure that the highest value projects are properly scoped and funded and that value for money is derived from projects at completion – then you need to ask which part of the federal government is undertaking each of those tasks.

This section looks at the current accountability of IA and DITRC and the gap between this and best practice. It is written to assist the reviewers to assess current effectiveness and propose areas of improvement.

What accountability does IA currently have?

- IA reviews and advises on problem statements, solutions assessments and a project's "planned" cost benefit analysis using data put forward by the project proponent (usually a state government).
- IA does not do its own project planning, scoping and costings – it relies on work done by project proponents
- IA does not approve a project for funding (it recommends it to government)
- IA does not put forward funds at the initial or any other stage of the project
- IA does not have visibility of scope, time and budget changes within a project after it has begun (ie its assessment of a project on the basis of that project's initial plan is never updated as changes occur to the project)
- IA does not formally have visibility of a project's outcomes to compare it to the original plan

What accountability does DITRC currently have?

- Acting on Ministerial advice, DITRC puts forward the funds at each stage of a project
- Does it have visibility of a project to assess and agree to changes of scope, time, and budget?
- How effective is it at this task?
- Is there evidence that DITRC's current level of involvement has led to improved outcomes for a project viz a viz the jurisdiction's own approach? That is, is it sufficient to simply leave these decisions about changes to scope, time, and budget up to the project proponent? How should the federal government remain involved beyond the decision to commit funds to the project?

I suspect there is a significant opportunity / requirement to be filled at federal level relating to ongoing assessment of scope, time, and cost for projects once they are underway. There is also value in a better, formal and "joined up" post completion review designed specifically to improve knowledge for assessment and funding of future projects. These changes would involve a much closer operational and strategic cooperation between DITRC and IA than is currently the case. By clarifying roles and accountabilities, each organisation can focus on its part of the broader work.

The federal government would not want to take on accountability for project delivery, this should remain with the proponent jurisdiction, but it can do more within these limits, to improve outcomes for the Australian people. Without a requirement for project delivery expertise, the federal government still needs to find a path to remain engaged without taking over.

The next Statement of Expectations can define not only the focus of IA but also its assurance role alongside the department.

What Ministers want from Infrastructure Australia

IA was established to provide independent expert assessments of project proposals ahead of a government decision to fund or not to fund. Its major purpose was to give the Australian public confidence in decisions to spend billions of dollars on infrastructure. It would point government in the direction of projects that had been scoped as best value for money. In addition, it was also seen as a pressure valve against state politicking for infrastructure investment and a mechanism to improve and standardise a proponent's problem definition and solutions assessment ahead of a formal request for funding. IA has gone some way to meeting all these objectives and should be recognised for its successes in this regard.

OTHER PRINCIPLES FOR INFRASTRUCTURE AUSTRALIA

Objective benefit cost ratio

The objective assessment metric of a positive benefit cost ratio may sometimes feel constricting for the organisation and the board) but is actually a vital element of discipline for IA (and in fact sets it free within defined limits). It removes it from advising on the subjective merits of a project in relation to other projects. The elected government can make well-informed decisions on the basis of IA advice and taking into consideration a range of factors that cannot be so objectively calculated. The Australian people elected a government to make these decisions (and if they don't like the decisions there is a mechanism to change the government). IA must be an adviser and recognise that it is a perfectly legitimate role of government to transparently weigh their advice against other assessed factors. It should encourage the public to see this too.

Threshold value for projects to be sent to IA

A threshold value above which projects must be sent to IA is a valuable guide in helping IA (and project proponents) manage a long list of possible assessments. It is true that some types of projects and some parts of Australia are likely to be under-represented by IA's assessments as a result. This should be considered under my proposed "end-to-end assets assessment process" because, whether it is assessed by IA or DITRC, if it requires federal funding it will need to be assessed somehow. It may be that IA is given a mandate for a less complex assessment or that DITRC undertakes that itself.

Working with the states

IA is not an industry association, and the jurisdictions are not its paying members. Jurisdictions are also not customers of IA with all that implies in a commercial relationship. IA should not feel the need to build its processes in a "customer centric" way with the jurisdictions at its centre. The Australian people (and their elected representative government) are IA's most important stakeholders and IA's purpose, structures and reporting mechanisms should recognise this primacy.

That is not to undermine the importance of maintaining strong relationships with the states. Jurisdictions should expect to be treated fairly and transparently and IA should be committed to continually improving its relationship with them. But it is the people of Australia via the federal government who should be at the centre of IA's accountability. If a state government wants federal funding, it will be seeking IA's positive recommendation to the federal government. IA needs to be squarely focused on meeting its obligation to the Australian people rather than making a jurisdiction happy. The clearer and more definitely it can act this way, the better the long-term relationship with the jurisdictions will be. IA has been right to regularly seek feedback from jurisdictions about its relationship with them but improving that relationship cannot come at the expense of performing its primary accountability – even if it is controversial for the jurisdictions involved.

Assessing infrastructure proposals

When a project proposal comes to the board for decision it comes as a briefing pack a few pages long. This pack provides the outcomes of the assessment as provided by management. It does not include the range of assumptions the project proponent has used, nor the elasticity of those key assumptions under a range of scenarios. It has been built this way because IA is only permitted a view of a project at its planning stage. This review could consider whether risks to project delivery are being adequately considered by the board (or in fact by management) under existing arrangements. As a board we never got access to a proponent's documentation and what's even worse, I am informed that neither IA's management committee nor even the CEO, got access to that documentation. The assessments were outsourced to consulting firms and IA's management, CEO and board only saw the outcomes of that third party assessment. I would be happy to discuss this with the reviewers if useful.

The role of the executive team, their areas of expertise and their accountabilities

The next CEO, Chair and board of IA should undertake a review of the key skillsets and experience required by management. What does management need to be world class at? What other high-performing skills do they need? What don't they need? What can they "buy in" and what should they "in-house"? This should include a deep understanding of the accountabilities of each member of the executive team.

Managing political criticism of IA

A number of the criticisms IA faces are a direct result of it doing the job Ministers asked of it. Jurisdictions sometimes want flexibility to define problems and propose solutions that meet local political needs rather than prioritising value for money. At a political level, state ministers have sometimes seen an attack on IA as an easy mark against "ivory tower" decision-makers. There is direct evidence of this behaviour over the last few years. IA's response has been to refuse to engage in a "political debate". This has been a poor decision because by attacking IA's independence or professionalism, these criticisms pose an existential risk to the organisation by undermining its reputation with the most important stakeholder it has – the Australian people.

IA has taken the view that it is up to federal ministers to defend against state ministerial attacks. While understandable, that is taking a two-dimensional approach to the problem. The vital middle ground is for the IA chair to steer clear of political language or picking sides between state and federal governments while at the same time promoting IA's professional and independent advice. It is easy enough to demonstrate how this would work in practise if the reviewers would like further details.

I firmly believe that this action, if it is consistent and measured, will be respected by state ministers (they won't like it as much as the current cost-free one-liners of course) and protect IA's vital interest in being seen as independent and professional.

It will require a chair who brings experience and stature from a career encompassing business and public policy and with a depth of political nous to stay on the middle path in public and private conversations at all levels. We have seen that hiding from the criticisms is not an answer and, I would contend, nor is cosying up to the states to avoid doing or saying anything controversial. IA's key stakeholder is the Australian public, and they deserve and expect IA to hold project proponents to account when they are asking for federal funds.

What can be done about the perennial challenge of unassessed election commitments (at all levels of government)?

One answer is for candidates to make a commitment that recognises it is still subject to IA assessment. This should leave open a thorough solutions assessment and decision about a funding envelope. So, the commitment is to address an identified local issue utilising expert advice on what the best value for money outcome is for the community.

There would not be an announcement of a specific project pre-designed and with a funding amount calculated. While it is not the best political outcome perhaps the political parties can manage with this if:

1. There is bipartisan support for this general approach and
2. There is pressure from political parties on each other not to announce projects that are yet to be assessed.

If this is not possible, there may be a work-around for parties where they announce a project for approval, so they effectively get to spruik a bridge, a bypass whatever, while still leaving open the outcome and costing to a full analysis. This muddies the water about the solutions assessment but at least provides flexibility on funding. Part of this should include an understanding between parties that an electorate is not being promised a fixed sum. In the past we have seen:

1. Projects gold-plated so that the promised amount is spent or
2. Any “extra” funds being seen as effectively granted to that electorate for use in other projects

The third leg to this approach is for IA to recognise the ongoing risks of election commitment and work to pre-assess and publish (at least to the problem statement and solutions assessment stages) a range of likely election announcements ahead of time. In a way, this already happens with the Infrastructure Audit identifying problem statements and the Infrastructure Plan identifying solutions assessments. A renewed focus through the prism of election campaigns may be useful.

WHAT AREAS MIGHT IA EXPAND INTO?

There are a few changes relating to IA that the reviewers may want to consider. None are huge but they can bring a clarity to accountabilities and make the most of the unique “voice” an independent, broadly based IA can bring to whole of governments infrastructure assessments, planning, and investment.

Moving beyond consideration of projects and into programs, precincts, and places

Encouraging jurisdictions to consider appropriate projects in the context of a broader program of works. For example, the benefits of a rail infrastructure may only flow upon completion of the whole program. A cost benefit analysis undertaken on just one part of the works will not show much benefit compared to when the work is completed overall. IA is already doing this to some extent.

To bring a focus on precincts and places, IA can encourage jurisdictions to plan and submit applications that relate to a development area and the benefits that will flow across a range of different types of infrastructure from identified upgrades and developments. Not only does this make sense from the perspective of assessing federal funding commitments, but it also means projects are assessed from the perspective of the people and businesses using the area.

The federal government’s engagement with jurisdictions on precincts and places need not only be on the basis of assessment of the proposals they put forward. A more engaged federal government may want to assist to guide these developments – and, with the right structure and resourcing, an independent IA may be a useful entity to lead that work. If the proposed Cities and Suburbs Unit were placed inside IA and had the oversight of the “end-to-end infrastructure assessment process” discussed here, it could bring clear role accountability to IA and DITRC in engaging with (IA) and funding via gateway approvals (DITRC). As an independent, multi-professional, business/public sector organisation, IA can work to bring together people from across jurisdictional, political, and commercial boundaries for the common good in a sophisticated and non-partisan way.

Broadening the scope of infrastructure investments to be assessed

If IA gains a greater accountability around precincts and places, it makes sense for it to focus on the full suite of infrastructure investment an area may need (including social infrastructure and sustainability). Individual projects within a precinct may not meet the threshold but in combination the precinct itself does.

It would also bring into IA's consideration the vital concept of whole of life costing for infrastructure which could feed back into its original role in project assessments too.

Can IA be a publisher of national and state-based infrastructure data?

This would mostly be acting as a re-publisher of other people's data but would also take a nationally consistent approach to what datasets may be valuable and how to harmonise them. It would importantly include case studies and examples of best practise from around the country (and overseas) with a focus on lessons learned.

SUMMARY RECOMMENDATIONS

1. Take a first principles approach to the Australian people's expectations of federal government funding commitments to national infrastructure projects
2. Utilise an end-to-end process to map and manage each of the responsibilities that flow from the first principles approach and give accountability to the DITRC Secretary to optimise the process
3. Divide the process responsibilities between DITRC and IA
4. Allocate clear accountabilities to DITRC's Dep Sec Infrastructure and the Chair of IA
5. Recognise the value of an independent IA and appoint board members in consultation with the chair of IA and the DITRC Secretary to build a cohesive, professional private-public board
6. Develop a clear-sighted relationship with the jurisdictions based on the role of the project proponent and the role of the project funder
7. An objective benefit cost ratio sets IA free and, by recognising the elements outside the modelling, empowers elected governments to make better informed decisions
8. IA chair should defend the organisation from political attack using the first principles and consistent explanation about where the role of IA starts and finishes
9. Build project assessments that recognise the role of elected governments to assess a range of issues beyond the assessment matrix and that help to inform better decisions
10. Work with stakeholders to develop a more professional approach to election commitments
11. Reallocate accountabilities to each IA executive and create metrics to manage them
12. Consider the unique voice of IA and how it can assist to bring together all levels of government with the private sector to consider precinct and place planning
13. Give consideration to IA being a publisher of relevant national and state datasets and case studies

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