Inquiry into National Freight and Supply Chain Priorities

Australian Government Infrastructure Investment Program, July 2017

WORKING PAPER
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Chapter 1: Overview

The Australian Government has a well-established Infrastructure Investment Program aimed at improving the productivity of Australia’s land transport networks. This includes increasing the capacity of our regions and major cities by connecting people and products to employment and markets safely and efficiently. The Infrastructure Investment Program is based on long-term planning, robust project identification and selection processes and targeted investment, to achieve the best outcomes for the national economy and people in our regional and urban communities. It is designed to ensure that Australia’s national land transport system is increasingly better placed to meet the challenges it faces in the future.

The Government has established a 10-year allocation for funding road and rail investments, predominantly through the Infrastructure Investment Program, recognising that many transformational projects are planned and built over many years.

This is expected to deliver $75 billion in infrastructure funding and financing from 2017-18 to 2026-27, including funding the $10 billion National Rail Program; and equity for two of the biggest infrastructure investments in our generation – the Inland Rail and Western Sydney Airport.

While the Commonwealth is the largest single funder of infrastructure in Australia, it is not always directly involved in the construction of new transport infrastructure or the delivery of public infrastructure services. The Commonwealth usually supports the delivery of transport infrastructure through State and Territory governments (the ‘states’ or ‘jurisdictions’). This role includes:

- by identifying and assessing national priorities for investment;
- working with these governments to ensure the assessment processes are robust to ensure the highest priority investments are supported;
- providing funding and other support for infrastructure upgrades; and
- working to implement infrastructure related reform initiatives, such as establishing national guidelines to provide governments, the private sector, and the public with transparency and certainty with regards to investment decisions.

The Infrastructure Investment Program includes the major infrastructure investment component and sub-programs that target specific outcomes (such as safety and improvements to local roads). The sub-programs include:

- Roads to Recovery;
- Black Spots Program;
- Heavy Vehicle Safety and Productivity Program;
- the Bridge Renewal Program; and
- National Highway Upgrade Program.

Further details about these programs are at Attachment A.
Chapter 2: Investment reform measures

In 2008, Infrastructure Australia (IA) was established to be an independent advisor to governments to eliminate the short-term cycle in project prioritisation and to develop a national view on infrastructure priorities and policies. In 2014, reforms were passed to strengthen the role of IA, as an independent, transparent and expert advisory body through a change in its governance structure and through better clarification of its functions. As part of this reform, the Government tasked IA to assess business cases for nationally significant infrastructure and proposals where $100 million or more in Government funding was being sought, with a focus on a project’s cost benefit analysis.

IA also recently undertook Australia’s first top-down infrastructure audit, which informed the development of IA’s 15 Year Australian Infrastructure Plan and Infrastructure Priority List. IA’s work has been central to the Government’s investment decision-making framework.

Following the release of IA’s Infrastructure Australia Plan in 2016, the Government has acted on a number of reforms raised, which have focussed on getting more from infrastructure investment and achieving better integrations between infrastructure needs and land use planning, especially in and around urban centres. The Australian Government is intent on becoming a more informed investor and having a say in where and how Commonwealth funds are invested (to help ensure it is achieving value for money); encouraging those who are best placed and have the skills to invest and deliver the infrastructure, particularly the private sector; and adaption to and capitalising on technological advances.

The Government is also looking to be a more informed investor through earlier involvement in the development of major projects and seeking longer-term returns on investment, where possible. Early involvement allows the Australian Government to help shape infrastructure projects to deliver, not only the best economic returns, but also benefits for users and the wider community and to drive broader policy objectives, such as urban renewal and affordable housing.

The Government also released the Principles for Innovative Funding in 2016, which set the Government’s goals for investing in land transport infrastructure, including how projects are selected, as well as how technology and alternative funding and financing are being considered. These Principles support a holistic approach to infrastructure investment and have been established to inform the development of state and territory government infrastructure proposals seeking Federal funding support.
Chapter 3: Governance and legislative framework

The Infrastructure Investment Program is subject to the following governance:

- The Federal Financial Relations Act 2009
  - The Program is the subject to the National Partnership Agreement on Land Transport Infrastructure Projects (the NPA) scheduled to terminate on 30 June 2019. The NPA is supported by a series of Schedules, which detail the committed projects in each jurisdiction.
  - The NPAs are in turn supported by the Program Notes on Administration (NOA), which provide clear guidance on the delivery of the program, including guidance as to how projects on the Schedule can be brought forward for funding.
  - The Notes are further supported by the Government’s Best Practice cost estimation guidelines and the Benefit Cost Analysis requirements set out in the Australian Transport Assessment and Planning guidelines, amongst other guidance.

- The National Land Transport Act 2014 (the Act)
  - This Act is designed to assist regional and national economic and social development through the provision of Commonwealth investment in road, rail or inter-modal transfer facilities, that is or will be important for (among other objectives):
    - The development of international, inter-State or inter-regional trade and commerce; or
    - The facilitation of international, inter-State or inter-regional travel.

- The Infrastructure Australia Act 2008

The key agencies involved in the Commonwealth’s delivery of infrastructure are:

- The Department of Infrastructure and Regional Development (the Department), which is responsible for:
  - assessing proposals and making recommendations for funding to Ministers;
  - managing the program budget and administration;
  - developing and implementing project financing arrangements;
  - undertaking, in partnership with jurisdictions, project planning and development work;
  - recommending payments against completed milestones to Treasury, on behalf of the Minister; and
  - monitoring and reporting on project delivery.

- Infrastructure Australia, which is responsible for independently assessing project business cases and maintaining an Infrastructure Priority List to inform Government of future investment priorities. Infrastructure Australia also has a function of providing advice to the governments, investors in and owners of infrastructure in relation to a variety of infrastructure matters, including current and future infrastructure needs, pricing and regulatory issues, and impediment to the efficient utilisation of national infrastructure networks.
The Government has also established the Infrastructure and Project Financing Authority (IPFA) within the Department of Prime Minister and Cabinet. IPFA is designed to strengthen the Government’s capacity to apply alternative funding and financing measures, to assist in the delivery of infrastructure. IPFA’s role in the development of major projects is being imbedded in the existing assessment processes, with the key issue being early engagement with proponents in consultation with the relevant Commonwealth Department.

- The Treasury, which processes payments between the Commonwealth and State Government Treasuries.

- State transport and planning agencies (and the Australian Rail Track Corporation), which develop, procure and deliver the projects and manage program administration at a state level.
Chapter 4: Overview of the project development life cycle

4.1 Planning and identification

Long term planning is crucial to delivering the maximum benefit from government’s infrastructure investment. Currently planning happens at a local and state level. Over the last few years, this process has become far more robust, with integrated planning documents developed by the states. As the owners and managers of transport networks, state and territory transport agencies generally initiate project proposals for consideration through state-based gateway processes. If considered a priority by the jurisdiction, a business case will be developed to consider option to address the deficiency and to identify an early cost estimate. Where the project is on a road or rail line that forms part of the national network or the project is considered otherwise nationally significant, the jurisdiction will bring forward the proposal for consideration of Commonwealth funding.

As such, the Department plays an important role in assisting the long term planning and providing a national focus to the provision, not just funding, of infrastructure. To assist in this, the Department maintains continuous engagement with equivalent state agencies to identify likely future priorities. Based on this ongoing engagement with jurisdictions and independent analysis, there is an internal pipeline of projects at pre-development/development stage. Projects are identified in terms of addressing areas of significant deficiency, including where there are lower than desired levels of service on transport corridors identified in the network modelling.

IA also works with jurisdictions through the development of business cases for major priority projects and on the assessment of options to address identified deficiencies in infrastructure networks. Generally, IA will engage with jurisdictions on projects / deficiencies identified on its Infrastructure Priority List.

Considering interconnections between economic, environmental and social aspects is necessary for successful long-term land use planning and transport infrastructure corridors that link key economic growth hubs and our ports and airports that provide international gateways. The early identification of land, through integrated land-use planning, to be set aside for future corridors is critical to lowering the cost of developing infrastructure projects within those corridors and ensuring it is fit for purpose and enhances the desired outcome, whether it be to improve connections between regions or supporting greater economic development.

4.2 Business case development and project selection

The Department works with jurisdictions to develop detailed assessments of potential projects that have been identified through long term planning and through rigorous project selection processes (including for new programs that have been announced by Government, such as the National Rail Program).

Predominantly through Budget processes, the Government considers further infrastructure investments, including proposals to fund the planning stages of major project initiatives considered
to have strategic merit, particularly initiatives that will increase productivity on the key freight routes or provide better freight access to markets or export ports. The planning funding is used to help develop the projects, including considering the optimum funding and financing structure, prior to the Government making a decision to invest in construction. The investment in planning also allows broader Government objectives to be considered through the project design.

IA and the Department undertake evaluations of project proposals on all infrastructure projects that are nationally significant or where funding of more than $100 million is to be sought from the Commonwealth. This includes IA assessing the proposal's costs and benefits under its established guidelines. By undertaking this process, it allows the Government to have a strong understanding of the project’s strategic fit, economic impact and deliverability of a project. It also helps support and promote a culture of evidence-based decision-making and ensures that a project represents a productive use of public money. This process is a two-way process, with IA and the Department working cooperatively with stakeholders to review the assessment framework and supporting material that proponents provide when submitting proposals.

Separately, the Department will undertake assessment of business cases for non-major projects, which have been developed by jurisdictions directly. The Department’s initial assessment of these business cases is consistent with IA’s assessment requirements for larger projects. Once projects have been through the necessary review processes, Cabinet then considers them for funding.

4.2.1 Negotiations and delivery

Following the agreement to fund a project, the Government provides the majority of funding for land transport infrastructure through the Infrastructure Investment Program. The Infrastructure Investment Program is administered under a National Partnership Agreement (NPA) (or previously Bi-Lateral Agreements) under five or six year programs.

Under this arrangement, the Government has made commitments to a large number of projects, across all jurisdictions, prior to commencement of a new program period, with these projects to be planned and delivered over the term of the program. The proponent must submit a Project Proposal Report, as detailed in the Notes on Administration to the NPA, to the Department for assessment before the committed funding can be released. This must include a Benefit Cost Analysis that complies with Infrastructure Australia’s guidelines, the Australian Transport Assessment and Planning guidelines and a probabilistic Cost Estimation that complies with the Best Practice Cost Estimation for Publicly Funding Road and Rail guidelines.

The Infrastructure Minister must sign a Project Approval Instrument under the Act. This may include specific conditions that must be met. Payments are made to state and territory proponents on the completion of agreed project milestones.
ATTACHMENT A
Infrastructure Investment Program: Sub-programs

Heavy Vehicle Safety and Productivity Program

The Heavy Vehicle Safety and Productivity Program is an Australian Government initiative to fund infrastructure projects that improve productivity and safety outcomes of heavy vehicle operations, predominantly on the key freight routes across Australia.

The Australian Government has extended the Heavy Vehicle Safety and Productivity Program and will provide $40 million per year from 2021-22 onwards, building on the current $328 million investment from 2013-14 to 2020-21. Under the Heavy Vehicle Safety and Productivity Program, the Australian Government contributes up to 50 per cent of the total project cost.


Bridges Renewal Program

The aim of the Bridges Renewal Program is to upgrade and repair bridges to facilitate higher productivity vehicle access on freight corridors and enhance access for local communities.

The Australian Government will provide $275 million from 2015-16 to 2018-19, $85 million in 2019-20 and $60 million per year from 2020-21 onwards. Under this program, the Australian Government funds up to 50 per cent of the total project cost.


National Highway Upgrade Program

The National Highway Upgrade Program is designed to deliver better infrastructure and improve productivity for freight operators. The Program was announced as part of the Infrastructure Growth Package in the 2014-15 Budget, with a commitment of $228.7 million available over five years between 2014-15 and 2018-19.

The Program provides jurisdictions with funding towards priority improvements to Australia’s key national highway networks through works such as shoulder and centreline widening, ripple strips and wire rope barriers, overtaking lanes, turning lanes and pavement improvements.


Roads to Recovery

The objective of Roads to Recovery is to contribute to the Infrastructure Investment Program through supporting maintenance of the nation’s local road infrastructure asset, which facilitates greater access for Australians and improved safety, economic and social outcomes.
Roads to Recovery allocations for the councils in each jurisdiction (except the ACT as it is a unitary jurisdiction) are determined based on the recommendations of the Local Government Grants Commissions in each state and the Northern Territory for the roads component of the Financial Assistance Grants.

From 2013-14 to 2020-21 the Government will provide $4.4 billion under the Roads to Recovery program, to be distributed to Australia’s local councils, state and territory Governments responsible for local roads in the unincorporated areas (where there are no councils) and the Indian Ocean Territories.


Black Spot Program

The aim of the Black Spot Program is to reduce crashes on Australian roads by targeting road locations where crashes are occurring. It is designed to improve road safety and productivity. The Black Spot Program makes an important contribution in reducing the national road toll under the National Road Safety Strategy and Action Plan. Eligible funding measures include traffic signals and roundabouts at dangerous locations.

Funding is mainly available for the treatment of Black Spot sites, or road lengths, with a proven history of crashes. Project proposals should be able to demonstrate a benefit to cost ratio of at least 2:1. For individual sites such as intersections, mid-block or short road sections, there should be a history of at least three casualty crashes over a five-year period. For lengths of road, there should be an average of 0.2 casualty crashes per kilometre per annum over the length in question over five years.

The Australian Government has committed $500 million to the Black Spot Program from 2014-15 to 2018-19, which includes an additional $200 million over two years from 2015-16 and $60 million per annum from 2019-20.