

The Auditor-General  
Audit Report No.2 2010–11  
Performance Audit

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

**Infrastructure Australia**

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Canberra ACT  
23 July 2010

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit of Infrastructure Australia in accordance with the authority contained in the *Auditor-General Act 1997*.

Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Abbreviations

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ACT	Australian Capital Territory
AGS	Australian Government Solicitor
ALP	Australian Labor Party
ANAO	Australian National Audit Office
ARTC	Australian Rail Track Corporation
BCR	Benefit-Cost Ratio
BCC	Brisbane City Council
CBA	Cost-Benefit Analysis
COAG	Council of Australian Governments
DITRDLG	Department of Infrastructure, Transport, Regional Development and Local Government
FMA Act	<i>Financial Management and Accountability Act 1997</i>
NT	Northern Territory
NSW	New South Wales
QLD	Queensland
SA	South Australia
VIC	Victoria
WA	Western Australia
WEB	Wider Economic Benefit



# **Summary and Recommendations**



# Summary

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## Introduction

1. In May 2005, the then Shadow Minister for Industry, Infrastructure and Industrial Relations announced the Australian Labor Party's (ALP) intention, if elected, to create a nationally led and coordinated authority, to be titled Infrastructure Australia, to work with the States and Territories to identify and achieve the most effective outcomes for nationally significant infrastructure.<sup>1</sup> Two years later, the ALP's 2007 National Platform and Constitution reiterated the ALP's intention to establish Infrastructure Australia as an independent statutory authority to assist in the planning and coordination of Australia's infrastructure needs.<sup>2</sup> Consequently, in the lead-up to the 2007 Federal Election, the ALP made a commitment to establish Infrastructure Australia within 100 days of being in government, if elected.<sup>3</sup>

2. Following the ALP's election to Government, the Infrastructure Australia Bill was introduced in the Parliament on 21 February 2008, passed both Houses of Parliament in March 2008, and the Act commenced on 9 April 2008. The *Infrastructure Australia Act 2008* (the Infrastructure Australia Act) established Infrastructure Australia and set out Infrastructure Australia's functions. Infrastructure Australia's primary function under the Act is to provide advice to the Minister, all levels of government, and investors and owners of infrastructure on matters relating to infrastructure. Infrastructure Australia was also given a number of additional functions, including:

- conducting audits to determine the adequacy, capacity and condition of nationally significant infrastructure, taking into account forecast growth; and

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<sup>1</sup> Stephen Smith (then Shadow Minister for Industry, Infrastructure and Industrial Relations), *Announcement of Infrastructure Australia*, Media Release, 12 May 2005.

<sup>2</sup> Australian Labor Party, *National Platform and Constitution 2007*, April 2007, p. 72. This followed the release of the *Report of the Australian Labor Party Inquiry into the Financing and Provision of Australian Infrastructure*, April 2007, which also recommended the establishment of a national infrastructure advisory council.

<sup>3</sup> Minister for Infrastructure, Transport, Regional Development and Local Government, *Infrastructure Australia Bill 2008, Second Reading Speech*, House of Representatives, 21 February 2008.

- developing lists (to be known as Infrastructure Priority Lists) that prioritise Australia's infrastructure needs.

## Governance arrangements

3. Under the Infrastructure Australia Act, the Infrastructure Australia Council consists of a Chair and eleven other members. The Minister appoints the Chair and the other members of the Council by written instrument made under the Act.<sup>4</sup> The Chair of the Infrastructure Australia Council, Sir Rod Eddington, was announced by the Minister for Infrastructure, Transport, Regional Development and Local Government on 26 February 2008.<sup>5</sup> The other eleven members of the Council were announced on 19 May 2008.<sup>6</sup> The Infrastructure Australia Council has the statutory role of providing advice to the Minister for Infrastructure, Transport, Regional Development and Local Government (the Minister) on infrastructure matters, including the development of priority lists.

4. The Infrastructure Coordinator (a statutory office holder also appointed by the Minister under the Act) supports the Council in the performance of its functions. The Infrastructure Coordinator is appointed by the Minister on a full-time basis for a period not exceeding five years. The appointment of the inaugural Infrastructure Coordinator, Mr Michael Deegan, was announced on 22 June 2008, with his role formally commencing on 1 July 2008.<sup>7</sup>

5. The Office of the Infrastructure Coordinator supports the Infrastructure Coordinator.<sup>8</sup> As well as a small number of permanent staff members (16 as at October 2009, including four staff in the Major Cities Unit) and secondees from

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<sup>4</sup> The Act sets out a number of requirements in relation to the composition, background and skills of Council Members that the Minister must ensure are satisfied in making appointments to the Council.

<sup>5</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Sir Rod Eddington appointed to head Infrastructure Australia*, Media Release, 26 February 2008.

<sup>6</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Membership of Infrastructure Australia*, Media Release, 19 May 2008.

<sup>7</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Appointment of Infrastructure Coordinator*, Media Release, 22 June 2008.

<sup>8</sup> For the purposes of this audit report, the term 'Infrastructure Australia' is used to refer jointly to the Infrastructure Australia Council, the Infrastructure Coordinator and the Office of the Infrastructure Coordinator. Otherwise, the report explicitly refers to the relevant party.

State and Territory governments, a range of external advisors are engaged as required.

6. Infrastructure Australia is a departmental body recognised in legislation and is neither a prescribed agency under the *Financial Management and Accountability Act 1997* nor a statutory authority under the *Commonwealth Authorities and Companies Act 1997*. Accordingly, the Office of the Infrastructure Coordinator operates within the legal framework of the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG). Specifically:

- staff are engaged under the *Public Service Act 1999*, and are employees of DITRD LG; and
- financial reporting is consolidated within the annual financial statements of DITRD LG.

7. The May 2008 Budget included \$20 million over four years to fund the Office of the Infrastructure Coordinator, with \$0.5 million for 2007–08 and \$6.5 million in each of the remaining three years. A further \$1.0 million per annum was provided for the Major Cities Unit, located within the Office of the Infrastructure Coordinator.<sup>9</sup> In announcing the Infrastructure Australia funding, the Budget Papers stated that:

The Government will provide \$20.0 million over four years to establish Infrastructure Australia, a statutory advisory council with twelve members drawn from industry and government, to work on developing long term solutions for infrastructure bottlenecks and investment in the nation's transport, water, energy and communication assets.

Infrastructure Australia will conduct audits of nationally significant infrastructure; develop an Infrastructure Priority List to guide public and private investment; and provide advice on regulatory reforms that can improve the utilisation of infrastructure networks. In developing the Infrastructure Priority List, Infrastructure Australia will assess projects in

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<sup>9</sup> The \$6.5 million budget allocated to the Office of the Infrastructure Coordinator is required to meet any budget deficits of the Major Cities Unit. Departmental outputs are appropriated as a single amount for each entity, such that the \$7.5 million per annum annual funding for the Office of the Infrastructure Coordinator (including the Major Cities Unit) is able to be used to fund any departmental expenditure in the Department of Infrastructure, Transport, Regional Development and Local Government. In this context, corporate overheads for 2009–10 are expected to be some \$1.876 million.

terms of specific goals, such as, meeting water and energy needs; traffic congestion in our major cities; efficiently moving freight from regional areas to our ports; and meeting the challenge of climate change.<sup>10</sup>

8. The May 2008 Budget Papers also included a statement focussing on the scope for improved policy and institutional frameworks for infrastructure investment, and investment in skills and training, as these were seen as areas where there was significant scope to lift Australia's productive capacity. Of direct relevance to the work of Infrastructure Australia, in this statement, the Government:<sup>11</sup>

- recognised that, where governments invest in infrastructure assets, it is essential that they seek to achieve maximum economic and social benefits, determined through rigorous cost-benefit analysis including evaluation and review;
- stated that only public infrastructure projects which at least meet a minimum benchmark social rate of return—determined through rigorous cost-benefit analysis, including evaluation and review—should be funded, and relative social rates of return above the minimum benchmark should be used to prioritise the funding of projects;
- committed to efficient public infrastructure investment through the development of coordinated, objective and transparent processes for decision-making based on thorough and rigorous cost-benefit analysis. Key elements of such an approach were seen as including decision-making based on rigorous cost-benefit analysis to ensure the highest economic and social benefits to the nation over the long-term and a commitment to transparency at all stages of the decision-making process; and

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<sup>10</sup> Budget Paper No. 2 2008–09, *Budget Measures*, circulated by The Honourable Wayne Swan MP, Treasurer of the Commonwealth of Australia and The Honourable Lindsay Tanner MP, Minister for Finance and Deregulation of the Commonwealth of Australia for the information of Honourable Members on the occasion of the Budget 2008–09, 13 May 2008, p. 266.

<sup>11</sup> Budget Paper No. 1 2008–09, *Budget Strategy and Outlook*, circulated by The Honourable Wayne Swan MP, Treasurer of the Commonwealth of Australia and The Honourable Lindsay Tanner MP, Minister for Finance and Deregulation of the Commonwealth of Australia for the information of Honourable Members on the occasion of the Budget 2008–09, 13 May 2008, pp. 4–6, 4–13 and 4–15.

- outlined that Infrastructure Australia had been established to improve processes around the assessment of infrastructure investment decisions. Specifically, the Budget Papers stated that:

To improve processes around the assessment of infrastructure investment decisions, the Australian Government established Infrastructure Australia to advise governments on nationally significant infrastructure. Infrastructure Australia's advice will be based on rigorous analysis of the costs and benefits of various infrastructure proposals. Infrastructure Australia will identify strategic investment priorities and policy and regulatory reforms to facilitate timely and coordinated delivery of infrastructure investments of national importance between all levels of government and industry. Infrastructure Australia's immediate priority is to complete a National Infrastructure Audit by the end of 2008, and develop an Infrastructure Priority List for COAG consideration in March 2009. It is also to develop best practice guidelines for Public Private Partnerships for COAG consideration by October 2008.<sup>12</sup>

9. Decisions about whether to invest in projects are taken by governments and industry, having regard to the advice of Infrastructure Australia, amongst others.

## **Conduct of the First National Infrastructure Audit and Development of the First Infrastructure Priority List**

10. The first Infrastructure Priority List was originally to be completed by March 2009, for consideration by the Council of Australian Governments (COAG).<sup>13</sup> It had been envisaged that development of the Priority List would be informed by the outcomes of the first National Infrastructure Audit, due to be completed by December 2008. However, following the onset of the global financial crisis, COAG brought the timeframe for completion of the first Priority List forward to December 2008, to be due at the same time as the completion of the first Audit.<sup>14</sup> In bringing forward the due date for the first Priority List, COAG noted that the Audit and Priority List were to be provided

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<sup>12</sup> Budget Paper No. 1 2008–09, *Budget Strategy and Outlook*, circulated by The Honourable Wayne Swan MP, Treasurer of the Commonwealth of Australia and The Honourable Lindsay Tanner MP, Minister for Finance and Deregulation of the Commonwealth of Australia for the information of Honourable Members on the occasion of the Budget 2008–09, 13 May 2008, p. 4–13.

<sup>13</sup> COAG Meeting Communique, 26 March 2008.

<sup>14</sup> COAG Meeting Communique, 2 October 2008.

in the form of an 'interim' report. The original COAG deadline of March 2009 was retained for the completion of a 'final' Priority List.

11. The truncation of an already tight timetable added to the challenges faced by Infrastructure Australia in conducting the first National Infrastructure Audit and in developing the first Infrastructure Priority List. In particular:

- this was the first time a non-sector specific list of priority infrastructure projects was to be prepared at the Commonwealth level such that the List published in December 2008 included infrastructure projects in the transport, energy, telecommunications, water and health sectors; and
- the Office of the Infrastructure Coordinator was required to develop and implement its own administrative arrangements and make the necessary staff and advisory appointments for its operations concurrently with conducting the National Infrastructure Audit, developing the Priority List and preparing and publishing national Public Private Partnership Guidelines.

12. The COAG deadline of December 2008 was met, with advice on the Audit results and a draft Interim Priority List being provided to the Minister on 5 December 2008. The Audit results and an Interim Priority List of 94 projects were publicly released on 19 December 2008 in a report titled *A Report to the Council of Australian Governments*. In respect to the Interim Priority List of 94 projects, the report stated that:

In order to finalise the Infrastructure Priority List, Infrastructure Australia proposes to:

- subject the data underpinning the assessment of strategic fit to further detailed scrutiny;
- request the development of comprehensive economic analysis of selected projects, where only a rapid economic analysis is available at this stage;
- ask submitting organisations to provide comprehensive economic analysis of specified projects immediately, if currently available;
- request and scrutinise the detailed demand modelling underpinning the projects; and

- subject the economic modelling methodology to further scrutiny.<sup>15</sup>

13. A Final Priority List was released by the Minister on Tuesday 12 May 2009<sup>16</sup> within a document titled *National Infrastructure Priorities: Infrastructure for an economically, socially and environmentally sustainable future*. Specifically the document stated that:

- nine 'priority' projects had been identified and should be considered for funding from the Building Australia Fund (together with a tenth project, being the Ipswich Motorway); and
- 28 'pipeline' projects were considered to show potential but further project development and analysis was required before Infrastructure Australia considered it would be able to make a funding recommendation to the Australian Government.

14. A key aspect of the Infrastructure Australia analytical framework for the Infrastructure Priority List was the development of a staged assessment process to prioritise between investment proposals, drawing from international and nationally-based practices and research. Of note was that the published methodology outlined that objective cost-benefit analysis (through Benefit-Cost Ratios or BCRs) would be used as the 'primary driver' of decision-making but they were not the only consideration. Consistent with the published methodology, a structured approach was planned by the Office of the Infrastructure Coordinator to combine the economic appraisal of a project's BCR with its assessment of each candidate project's 'strategic fit' in order to identify those projects worthy of further consideration (at the Interim Priority List stage) and, subsequently, to be included on the Final Priority List.

15. Figure S 1 summarises the key points in the development of the Final Priority List. Figure S 1 also outlines how the Final Priority List has played an important role in Government funding decisions with seven of the nine priority projects having been announced for funding and 10 of the 28 pipeline projects similarly having been announced for funding.

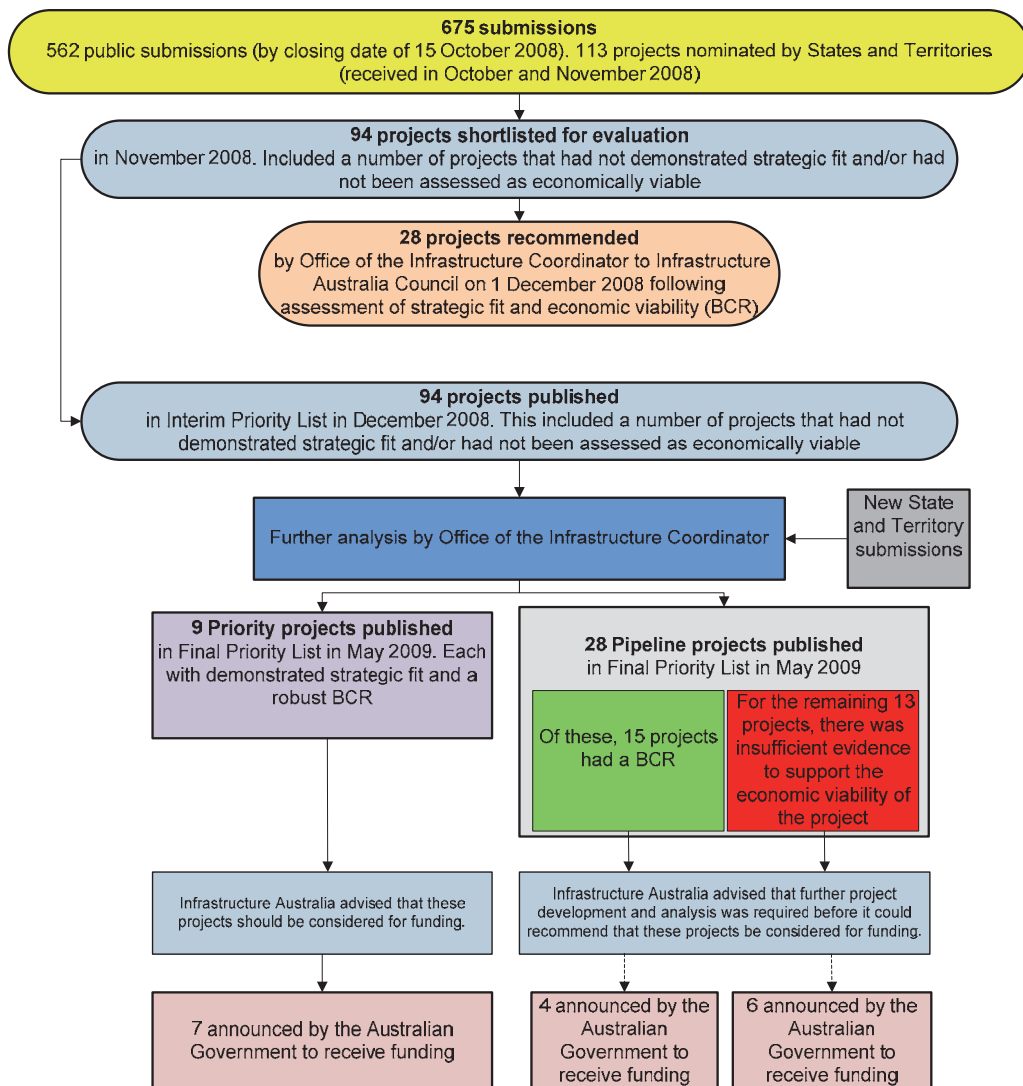
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<sup>15</sup> Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 72.

<sup>16</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Investing in the Nation's Infrastructure Priorities*, Media Release, 12 May 2009.

**Figure S 1**

## Key points in the development of the Infrastructure Priority List



Source: ANAO analysis of records of the Office of the Infrastructure Coordinator.

## Audit objectives and scope

16. In November 2008, the Infrastructure Coordinator wrote to the Auditor-General 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.

17. The Auditor-General agreed to this request as it was consistent with the published audit strategy for the Infrastructure, Transport, Regional Development and Local Government portfolio. The objective for the Australian National Audit Office (ANAO) performance 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:

- the submissions process and the methodology used to assess submissions;
- the overall conduct of the Audit process;
- the formulation of the Interim and Final Infrastructure Priority Lists; and
- the provision of advice and recommendations to the Government.

18. Audit work originally commenced in March 2009 but was put on hold in late June 2009 in order to respond to a request from the then Prime Minister for a performance audit of a range of matters relating to representations to the Treasury regarding automotive finance arrangements for car dealers. Audit work re-commenced in August 2009.

## Overall conclusion

19. Infrastructure Australia was established 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. Accordingly, it is a goal of Infrastructure Australia that infrastructure funding decisions will be taken following careful planning and rigorous assessments that are based on sufficient evidence.

20. Consistent with sound practice, Infrastructure Australia published guidance on its audit framework and on its prioritisation methodology, although the prioritisation methodology was released relatively late in the submissions process due to a range of demands on the Office at the time.

21. The published National Infrastructure Audit framework was sound. In conducting the Audit, the Office of the Infrastructure Coordinator relied on a range of material, although the short time available to conduct the Audit meant that most reliance was placed on submissions received from the States

and Territories. The Audit identified a range of ‘challenges’ at the national and location-specific levels and Infrastructure Australia formulated seven themes in response to these challenges.

**22.** Infrastructure Australia’s methodology provided a robust framework for the development of the Interim and Final Infrastructure Priority Lists. This was reinforced by the Office of the Infrastructure Coordinator taking a rigorous approach to assessing candidate projects including by: scrutinising the claims made by proponents in their submissions; seeking further information where it was needed; and engaging advisers to assist it in deciding whether the BCR submitted by the proponent could be relied upon, or required moderation.<sup>17</sup>

**23.** The Interim Priority List, published in December 2008, comprised 94 projects. During November 2008, these 94 projects had been evaluated by the Office of the Infrastructure Coordinator, with 28 projects being recommended by the Office of the Infrastructure Coordinator as meriting further consideration. Consistent with its statutory role, the Council (with the support of the Infrastructure Coordinator) took a different perspective, and included all 94 shortlisted projects on the Interim Priority List. This decision, and its reasons, were not documented in the records of the relevant Council meeting. In June 2010, the Chair of the Infrastructure Australia Council informed ANAO that the Council and the Infrastructure Coordinator had agreed that further information should be requested from all 94 projects to allow for:

- additional evidence to come forward before the original deadline for the completion of the Final Priority List; and
- the Office of the Infrastructure Coordinator’s assessment to be updated given the initial assessment by the Office of the Infrastructure Coordinator reflected the available information and time available for assessment.

**24.** Further information was provided in respect to some projects, and some project assessments were updated but, in the main, the December 2008 request to proponents of all 94 projects on the Interim Priority List that they

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<sup>17</sup> In particular, the analysis examined the robustness of the demand forecasts, the robustness of the proponent’s costing, key methodological questions and benchmarked the figures used by the proponent.

provide further information was unsuccessful in significantly improving the information available to inform the development of the Final Priority List.

25. The Infrastructure Australia Council gave the Office of the Infrastructure Coordinator guidance on its overall approach and tested the Office of the Infrastructure Coordinator's conclusions in relation to specific projects. The Council also asked for further information on some projects, particularly those the Council considered to be of demonstrable national importance or projects seen to have particular sensitivities. The Chair of the Council informed ANAO that this iterative process was intended to ensure that the Council's understanding of the projects was complete, as well as to enable the Council to refine its understanding and assessment of the proposals that had been submitted for its consideration. The Final Priority List was published in May 2009. It comprised:

- nine 'priority' projects<sup>18</sup> that had been assessed as meeting the tests outlined in the published Prioritisation Methodology, including having a BCR greater than 1 such that the project offered net economic benefits; and
- 28 'pipeline' projects,<sup>19</sup> largely comprising projects which either had not submitted a BCR for the Office of the Infrastructure Coordinator's evaluation, or where the Office of the Infrastructure Coordinator's evaluation had identified shortcomings in the BCR.

26. When published, the Final Priority List outlined the criteria that had been applied in deciding upon both the priority projects and the pipeline projects. The criteria applied to identifying the nine priority projects were consistent with those outlined in the published Prioritisation Methodology, and the Office of the Infrastructure Coordinator's analysis was that these criteria had been met by each of the nine priority projects.

27. Whilst the nine priority projects had demonstrably satisfied the tests set out in the published Prioritisation Methodology, this was not the case for the

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<sup>18</sup> See Paragraph 13 for description of 'priority' and 'pipeline' projects.

<sup>19</sup> These 28 projects are a different set of projects from the 28 projects recommended by the Office of the Infrastructure Coordinator referred to in paragraph 23, although there is some overlap with individual projects.

28 pipeline projects. In particular, whilst the published Prioritisation Methodology had outlined a range of factors that would be taken into account, it stated that BCRs would be used as the 'primary driver' of decision-making and did not contemplate that a project without a robust economic appraisal would remain a candidate for inclusion on the Final Priority List, or outline any criteria that would be applied to such projects in lieu of their BCR being used as the primary driver of decision-making. Further, there was no clear record maintained of the reasons for the Council deciding which projects were to be included on the Final Priority List, and those projects that were to be excluded.

28. Infrastructure Australia's May 2009 document incorporating the Final Priority List stated that the 28 pipeline projects had not yet demonstrated their economic viability (through the economic appraisal process including having a BCR above 1) nor had they demonstrated robust delivery mechanisms that would ensure they could be successfully implemented. Accordingly, the May 2009 document advised that further project development and analysis was required before Infrastructure Australia could provide definitive funding assessment advice to the Government.

29. Once it has published its Priority List identifying projects that merit being considered for funding and those that are worthy of further development and analysis, Infrastructure Australia does 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 context. 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.<sup>20</sup>

30. The Infrastructure Australia Council is responsible for developing Lists that prioritise Australia's infrastructure needs and, in discharging this role, has the capacity to look beyond the initial information submitted to it by project

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<sup>20</sup> See further at paragraphs 5.78 to 5.80 in respect to the priority projects, paragraphs 5.83 to 5.84 in respect to the pipeline projects and Infrastructure Australia's comments on Government funding at paragraph 5.89.

proponents and assessments prepared for it by the Office of the Infrastructure Coordinator. The Council adopted such an approach in the development of its first Infrastructure Priority List on a consensus basis.

31. A clear strength in the processes employed in developing the first Infrastructure Priority List was the rigorous approach adopted to analysing proponent submissions against the published criteria. The published criteria themselves set a high standard, with a strong focus on the economic appraisal of candidate projects. However, whilst all shortlisted projects were considered against the same criteria, the pipeline projects did not pass the tests set out in the published Prioritisation Methodology. The criteria applied to distinguish between priority and pipeline projects were outlined in the May 2009 Final Priority List but they were not reflected in the Prioritisation Methodology published in September 2008, and have not been reflected in the guidelines for making submissions to Infrastructure Australia's infrastructure planning process published in October 2009.

32. Recognising the value to long term infrastructure planning from the development and ongoing update of a pipeline of nationally significant projects, 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 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.<sup>21</sup>

33. Inevitably, there will be experience gained by any new organisation with such a critical role that will result in some modifications or streamlining of approaches. 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.

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<sup>21</sup> Under the legislative arrangements, the Council was empowered to decide which projects should be included on the Final Priority List; and there was no requirement for the Council to document the nature and extent of any inquiries undertaken, or to record the reasons for decisions taken.

## Key findings by Chapter

### The National Infrastructure Audit (Chapter 2)

34. In March 2008, COAG agreed to its Infrastructure Working Group's recommendation that the National Infrastructure Audit be one of the immediate priorities for Infrastructure Australia, the others being the development of an Infrastructure Priority List and development of National Public Private Partnership Guidelines. The Audit was to be completed by December 2008, some eight months after Infrastructure Australia was established by legislation and five months after the Infrastructure Coordinator was formally appointed. The timeframe was met, with the results of the Audit being published in December 2008 (together with the Interim Priority List).

35. The conduct of the National Infrastructure Audit was complicated by the first request for submissions being made prior to Infrastructure Australia developing its Audit methodology. This situation, and the significant variability in the quality and extent of the submissions received, necessitated a further request for submissions.

36. In formulating the December 2008 Report, Infrastructure Australia relied on a range of material. This included:

- submissions made by various organisations as part of the public submissions process;
- existing studies and reports from Commonwealth bodies, such as the Productivity Commission; and
- Commonwealth and State Government submissions made to Infrastructure Australia throughout 2008.

37. The National Infrastructure Audit revealed considerable gaps in the national systems for collecting, holding and analysing the data used to inform infrastructure investment decisions. The submission process attempted to address some of these gaps, but this was not successful.

38. The first objective of the National Infrastructure Audit was to determine the adequacy, capacity and condition of nationally significant infrastructure, taking into account forecast growth. The second objective was to identify gaps, deficiencies, impediments and bottlenecks in the identified sectors as measured against expected future demand. However, neither of these objectives were explicitly addressed in the reported outcomes of the

Audit. Instead, the Report identified a range of ‘challenges’ at a national and location-specific level and Infrastructure Australia’s proposed response to these challenges. Separately, Infrastructure Australia is developing infrastructure strategies in areas such as freight and ports, water, energy and public transport in response to issues raised in relation to the second objective above. In April 2010 the Office of the Infrastructure Coordinator advised ANAO that its view was that, given the data limitations and the available timeframe, the intent of COAG’s terms of reference had been satisfied.<sup>22</sup>

### **Administrative processes for the development of the Priority Lists (Chapter 3)**

39. As previously indicated, the Priority List was developed through a submissions-based process, with 675 project submissions received. There were some administrative issues in the way in which submissions were registered and controlled within the Office of the Infrastructure Coordinator, as well as in relation to the maintenance of records of correspondence and discussions with proponents. A key factor in these circumstances was that the Office of the Infrastructure Coordinator was developing and implementing administrative processes at the same time as commencing its substantive work on the National Infrastructure Audit, the development of the Infrastructure Priority List and production of Public Private Partnership guidelines, each of which had tight timeframes. The Office of the Infrastructure Coordinator has advised ANAO of a range of improvements that have now been adopted with respect to its administrative processes.

40. Infrastructure Australia’s assessment framework, which was not a tender process, drew from international and national-based practices and research, and was published in the form of a document called the Prioritisation Methodology. The Prioritisation Methodology was endorsed by the Infrastructure Australia Council at its meeting on 1 October 2008.

41. Amongst other sources, Infrastructure Australia’s approach drew on the *National Guidelines for Transport System Management* (National Guidelines) which were endorsed by the Australian Transport Council in November 2004, and updated in December 2006. As outlined in ANAO Audit Report No. 29

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<sup>22</sup> See further at paragraph 2.26.

2008–09, *Delivery of Projects on the AusLink National Network*, the National Guidelines advocate that all proposed projects should be subject to the same appraisal process and that appraised proposals should be prioritised to develop a forward program of preferred initiatives through a transparent process that is founded on sound economic and business investment principles.<sup>23</sup> The framework set out in the National Guidelines uses a three-stage appraisal process, illustrated in Figure S 2. The intention is that the projects that pass through all filters, demonstrate strategic merit and fit, and perform well in a detailed appraisal, which is to be a:

comprehensive analysis of the impacts and merit of an initiative. A detailed appraisal usually involves detailed Benefit-Cost Analysis, a financial or budget assessment, and specific impact analyses and impact statements (for example, environmental, social, regional, employment, equity). All relevant monetised and non-monetised impacts need to be assessed.<sup>24</sup>

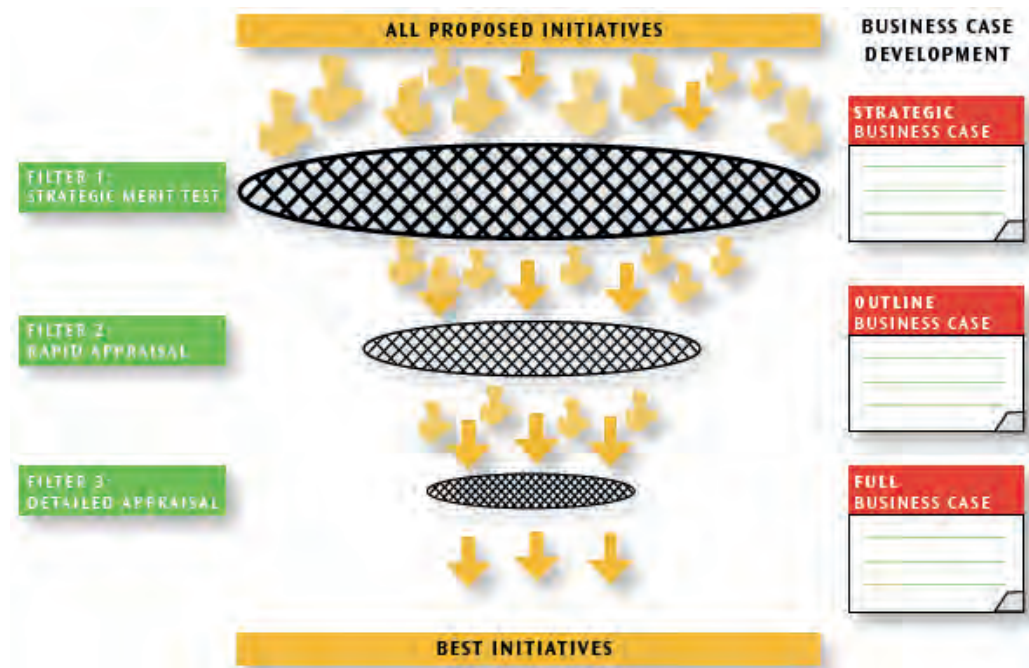
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<sup>23</sup> Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, pp. 18–20.

<sup>24</sup> *ibid.*, p. 19.

Figure S 2

## Three-stage appraisal process for infrastructure projects



Source: Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 2—Strategic transport planning and development, December 2006, p. 54.

42. The application of the Prioritisation Methodology involved self-assessment by proponents, with the Office of the Infrastructure Coordinator scrutinising the claims made by proponents in their submissions. In this respect, the published Prioritisation Methodology document contained three proformas to assist project proponents in providing information to Infrastructure Australia. The Prioritisation Methodology also outlined that there were three phases to Infrastructure Australia's process:

- *profiling*, being an analysis of the project's 'strategic fit'—how well the project would meet Infrastructure Australia's strategic priorities<sup>25</sup>;

<sup>25</sup> These were: expand Australia's productive capacity; increase Australia's productivity; diversify Australia's economic capabilities; build on Australia's global competitive advantages; develop our cities and/or regions; reduce greenhouse emissions; and improve social equity and quality of life in our cities and our regions.

- *economic appraisal*, which combined monetised cost-benefit analysis of candidate projects (measured principally through a project's Benefit-Cost Ratio, or BCR). The purpose of the economic appraisal assessment phase was to critique the BCRs submitted with candidate initiatives so as to identify whether the proponent's economic analysis could be relied upon in developing the Interim Priority List; and
- *selection*, in which the outputs of the preceding profiling and appraisal phases were to be used to create a priority list of initiatives to enable informed decision-making for the allocation of funding.

43. Infrastructure Australia's published Prioritisation Methodology had regard to the practical circumstances faced in the context of developing the first Infrastructure Priority List. In particular, it allowed for project proposals to be at different stages of development. Nevertheless, the Prioritisation Methodology required that robust information (including economic analysis) appropriate to the development maturity of the project be submitted for the Office of the Infrastructure Coordinator's analysis. This was consistent with the Government's stated intention (see paragraph 8) that Infrastructure Australia's advice be based on rigorous analysis of the costs and benefits of various infrastructure proposals.

## **The Interim Priority List (Chapter 4)**

44. From the 675 submissions that had been received, the Council decided to shortlist 94 projects for detailed evaluation by the Office of the Infrastructure Coordinator, in order to develop the Interim Priority List. This approach was consistent with the approach proposed by the Office of the Infrastructure Coordinator and the Infrastructure Coordinator.

45. The Office of the Infrastructure Coordinator developed an evaluation plan to assist it in undertaking the detailed assessment of the 94 shortlisted projects. The evaluation plan was consistent with the Prioritisation Methodology previously endorsed by the Council that had been published on the Infrastructure Australia website.

46. The evaluation was undertaken by the Office of the Infrastructure Coordinator in accordance with the evaluation plan. The rigour of the evaluation process was further aided by the Office of the Infrastructure Coordinator engaging (from a panel established by DITRD LG) external

advisers to assist in evaluating the BCRs submitted by proponents. The approach adopted was robust and comprehensive.

47. The published Prioritisation Methodology outlined that the outputs of the preceding profiling and appraisal phases were to be used to create a priority list of initiatives to enable informed decision-making for the allocation of funding. This approach was implemented, with the Office of the Infrastructure Coordinator concluding that, of the 94 shortlisted projects:

- 57 projects either had a BCR that was below the evaluation threshold of 1.5<sup>26</sup> or a profiling assessment had not been able to be completed;
- nine projects did not have a good fit with the strategic priorities or would not deliver significant economic benefits and therefore should not be further considered as candidates for the Interim Priority List; and
- 28 projects merited being considered by the Council for inclusion on the Interim Priority List (referred to as projects on the merit matrix<sup>27</sup>).

48. A report on the results of the evaluation was provided to the Infrastructure Coordinator by a Prioritisation Evaluation Committee comprising senior staff of the Office of the Infrastructure Coordinator. These recommendations were presented to the Council at its meeting on 1 December 2008.

49. On 5 December 2008, the Chair of the Infrastructure Australia Council wrote to the Minister for Infrastructure, Transport, Regional Development and Local Government providing him with the results of the National Infrastructure Audit and also outlining the proposed approach to finalising the Interim Priority List. The Minister was provided with the list of 94 projects that had been evaluated and advised that:

- there were six 'priority projects' that addressed one or more of the seven themes and where the project's initial economic appraisal and

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<sup>26</sup> The BCR threshold of 1.5 had not been promulgated to proponents.

<sup>27</sup> The published Prioritisation Methodology had stated that: 'The integration of the multiple inputs to produce a single prioritised list of initiatives is complex but will be simplified by using matrix mapping of the inputs to offer an easy-to-visualise assessment of priority.'

alignment with key strategic priorities was considered to be well documented. The Minister was further advised that, subject to further engagement with project proponents the expectation was that these projects could proceed to be recommended for funding, including from the Building Australia Fund; and

- there was a second group of 22 ‘potential projects’ that included initiatives that also addressed one or more of the strategic themes but that some aspect of a project’s economic benefits or alignment with strategic priorities remained sufficiently in question such that they could not, at that time, be recommended for immediate funding.

50. The Council next met on 12 December 2008. At this meeting, the Council requested that the Office of the Infrastructure Coordinator seek additional information for all 94 projects that were able to be evaluated, and not just for those 28 that had been recommended by the Office of the Infrastructure Coordinator as meriting further consideration. As a result of this decision, the Interim Priority List publicly released on 19 December 2008 (within the document titled *A Report to the Council of Australian Governments*) was the list of 94 projects shortlisted for detailed appraisal. Neither the Council’s decision not to accept the recommendation that 28 projects be included on the Interim Priority List but to instead include all 94 shortlisted projects, nor the reasons for the decision, were reflected in the Minutes of the relevant Council meeting or later meetings.

51. In publishing the Interim Priority List, Infrastructure Australia noted that projects with a comparatively low BCR or with no cost-benefit assessment evidence had not been included in the list of 94 projects.<sup>28</sup> However, as indicated, there were a significant number of projects included in the Interim Priority List that had a comparatively low BCR or where the proponent had not provided sufficient evidence to enable Infrastructure Australia to assess the BCR that had been submitted. Accordingly, an adequate economic appraisal was not applied as an eligibility criterion for inclusion on the Interim Priority List, notwithstanding that the published Prioritisation Methodology had stated that cost-benefit analysis would be used as the ‘primary driver of decision-

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<sup>28</sup> Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 67.

making'. In this context, in June 2010, the Chair of the Council informed ANAO that the Council believes it should have some discretion in selecting projects that should be given the opportunity to show their merit over time. The Chair further informed ANAO that the Council considered the Interim Priority List to be an interim assessment of likely projects to help guide further analysis, but not on an exclusive basis.

## **The Final Priority List (Chapter 5)**

52. Neither the Interim Priority List nor any of the associated material promulgated by Infrastructure Australia flagged that there would be opportunities to submit new candidates for inclusion in the Final Priority List. Indeed, the December 2008 report that incorporated the Interim Priority List had advised that those projects that had not been included on the Interim Priority List would be considered 'on their merits in future assessment processes'.<sup>29</sup> Whilst no further public submissions were received, four projects from different State and Territory governments were received and considered.<sup>30</sup> One of these was included in the table of Infrastructure Priorities published in the report outlining the Final Priority List.<sup>31</sup>

53. The overall evaluation framework envisaged by the Office of the Infrastructure Coordinator for developing recommendations on the Final Priority List was consistent with the published Prioritisation Methodology applied in developing the Office of the Infrastructure Coordinator's recommendations in relation to the Interim Priority List. Similar administrative arrangements were also proposed and the Office of the Infrastructure Coordinator commenced updating the evaluation plan that had been approved for the development of the Interim Priority List.

54. However, a substantially different approach was ultimately taken to the development of the Final Priority List. The Prioritisation Evaluation Committee within the Office of the Infrastructure Coordinator again had a

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<sup>29</sup> Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 67.

<sup>30</sup> These projects were: the Redcliffe Railway in Brisbane to provide a rail link initially from Petrie to Kippa Ring; the Adelaide O-Bahn Track Extension; the Ipswich Motorway in Queensland; and the Moorebank Intermodal Terminal.

<sup>31</sup> This was the Ipswich Motorway in Queensland project.

central role in advising the Infrastructure Coordinator and, in turn, the Council on the composition of the Final Priority List. However, rather than the Prioritisation Evaluation Committee developing recommendations for the Infrastructure Coordinator to then take to the Council, the Council took a leading role in guiding the evaluation process, and there was significant engagement by the Infrastructure Coordinator and his Office with proponents for certain projects that the Council expressed particular interest in.

55. Under the approach taken to developing the Final Priority List, rather than an evaluation report being prepared by the Office of the Infrastructure Coordinator that documented how the evaluation was conducted and the results, the primary records of the development of the List were the papers submitted to the Council meetings and the meeting Minutes.<sup>32</sup> The key meetings in this regard were held on 30 January 2009, 27 February 2009 and 27 March 2009. However, Council meeting Minutes often did not record when it was decided to include projects on the Final Priority List or why. Rather, the best record of the evolving Final Priority List was the various drafts of the List circulated to Council members prior to and following the meetings.

56. On 27 March 2009, following a meeting of the Infrastructure Australia Council, the Infrastructure Coordinator (under delegation from the Council) provided the Minister with a Final Priority List comprising nine priority projects and 27 pipeline projects. This timeframe was consistent with the COAG request that the Final Priority List be provided by March 2009. However, the List was not published at that time.

57. On 7 May 2009, an updated Final Priority List, together with an outline of the process adopted and details of further work that had been done, was provided to the Minister by the Chairman of the Infrastructure Australia Council. It now included an additional pipeline project.<sup>33</sup> The Final Priority List (of nine priority projects and 28 pipeline projects) was published on Tuesday 12 May 2009. Each of the nine priority projects and the 28 pipeline projects had been assessed as fitting one of Infrastructure Australia's seven themes for action. In addition, whilst most of the proposals submitted to

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<sup>32</sup> In July 2010, the Infrastructure Coordinator informed ANAO that he had prepared the papers and minutes.

<sup>33</sup> The Western Australian Government's Northbridge Rail Link (The Hub) project.

Infrastructure Australia were considered by the Council to have been focused on infrastructure issues within a particular jurisdiction (State, Territory or regional/local government area) rather than being national in their scope, the final conclusion reached by the Council was that each of the priority and pipeline projects was of national significance. In reaching this conclusion, the Council recognised that specific projects in a particular locality can assist in pursuing various national priorities.

### *Priority projects*

58. The Final Priority List included nine projects that had been assessed as being consistent with Infrastructure Australia's seven themes; would contribute to Infrastructure Australia's strategic policy goals; and had demonstrated long-term economic benefits (through their BCR) (see Table S 1). The Office of the Infrastructure Coordinator had concluded that each of these projects was likely to have a BCR greater than 1, such that the project offered net economic benefits. Seven of the nine priority projects were announced in the May 2009 Budget to receive full or partial funding (see Table S 1). The May 2010 Budget did not include any funding for the remaining two priority projects.

**Table S 1****Final Priority List Priority Projects**

Project	Budget Funding Received for Project
Adelaide Rail Freight Junctions and Level Crossings-Goodwood and Torrens (SA)	No
F3-Branxton Freeway (NSW)	Yes (\$1 451.0 million over six years towards the construction of 40 kilometres of dual carriageway linking the F3 and the New England Highway near Branxton)
Majura Parkway (Stage 2) (ACT)	No
Pacific Highway Corridor (NSW)	Yes (\$618.0 million over five years towards the construction of 14.5 kilometres of a four-lane divided highway to the east of Kempsey and Frederickton, as well as several other projects)
Gawler Rail Line Upgrades (re-sleepering and electrification) (SA)	Yes (\$293.5 million over five years towards the acceleration of renewal projects on the Gawler line)
East-West Rail Tunnel (VIC)	Yes (\$40.0 million over two years for pre-construction work on a rail tunnel from Dynon to St Kilda Road)
Gold Coast Rapid Transit (QLD)	Yes (\$365.0 million in 2009–10 for a possible equity contribution towards a light rail public transport link)
Regional Rail Express (VIC)	Yes (\$3 255.0 million over six years towards the separation of regional and metro rail services between West Werribee and Southern Cross Station via Sunshine)
Seaford Rail Extension (SA)	Yes (\$291.2 million over five years towards a 5.5 kilometre dual track, electrified extension of the existing rail line from Noarlunga to Seaford in the south of Adelaide)

Source: Infrastructure Australia, *National Infrastructure Priorities*, May 2009 and Commonwealth Budget Papers 2009–10.

***Pipeline projects***

59. The concept of a project pipeline had been contemplated by the Office of the Infrastructure Coordinator in the approach it had taken to preparing recommendations on the Interim Priority List. In particular, the Office of the Infrastructure Coordinator had identified both priority projects and those with potential for the Interim Priority List. For the purposes of the Interim Priority List, to be recommended by the Office of the Infrastructure Coordinator for inclusion as a pipeline project with potential:

- the project submission was required to be supported by sufficient information for the Office of the Infrastructure Coordinator to scrutinise the profiling for the project, with the Office of the Infrastructure Coordinator's assessment then concluding that the project was, as a minimum, a good strategic fit; and
- there needed to be indications that the BCR for the project was likely to be at least 1.5, but sufficient information had not yet been provided to support the proponent's economic appraisal.

60. However, the pipeline projects included in the Final Priority List reflected less stringent criteria (see Table S2). Whilst a small number of the 28 pipeline projects<sup>34</sup> had not been assessed as demonstrating a fit with Infrastructure Australia's strategic priorities, the most significant difference between the priority projects and those included on the pipeline in the Final Interim List related to their economic appraisal. In particular:

- 13 of the pipeline projects did not have a BCR, whereas all priority projects had a BCR of 1.3 or higher<sup>35</sup>; and
- for the remaining 15 pipeline projects that had a BCR associated with them, the Office of the Infrastructure Coordinator's assessment had been that there was insufficient evidence to support the economic viability of the project. In some instances, this was because the BCRs were assessed as out of date by the Office of the Infrastructure Coordinator. In other instances, the economic analysis was assessed as preliminary or inadequate.

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<sup>34</sup> Ten of the pipeline projects had not been included in the Office of the Infrastructure Coordinator's list of 28 projects recommended for inclusion on the Interim Priority List. However, despite not providing any further information to inform any change to the Office of the Infrastructure Coordinator's December 2008 assessment that they were not sufficiently well advanced to meet the established criteria for inclusion on the Interim Priority List, they were included in the Final Priority List as pipeline projects.

<sup>35</sup> Three of the 13 projects involved Infrastructure Australia incorporating one or more elements of applicant submissions into a broader 'project', and did not, as a result, have a proponent-submitted BCR, although some of the individual elements of the 'package' created by Infrastructure Australia did have a BCR. Project applicants did not provide BCRs in their submissions for a further ten projects on the pipeline list.

**Table S 2****Criteria for including projects on the Final Priority List**

'Three pillars' outlined in the September 2008 Prioritisation Methodology and December 2008 Minimum Information Requirements	Criteria that each of the Priority Projects were reported as having met	Criteria that each of the Pipeline Projects were reported as having met
Profiling: the fit with Infrastructure Australia's seven strategic priorities.	Fit one of Infrastructure Australia's seven themes for action.	
No equivalent	Are of national significance	
No equivalent	Make a clear and positive contribution to Australia's policy goals.	
Appraisal—the objective and quantified economic cost-benefit analysis.	Demonstrate significant long-term national benefits to Australia (all projects' economic cost-benefit ratios are very significantly above 1:1 and some are above 2:1).	No equivalent
Deliverability—project risk, governance and timing.	Demonstrate robust delivery mechanisms to ensure they can be successfully implemented.	No equivalent

Source: ANAO analysis and advice from the Office of the Infrastructure Coordinator.

61. Infrastructure Australia's May 2009 document incorporating the Final Priority List stated that the pipeline projects had not yet demonstrated their economic viability (through the economic appraisal process including having a BCR above 1) nor had they demonstrated robust delivery mechanisms that would ensure they could be successfully implemented. Accordingly, the May 2009 document advised that further project development and analysis was required before Infrastructure Australia could provide definitive funding assessment advice to the Government. Infrastructure Australia reported that this was because:

- there was insufficient information to make a robust assessment at this stage, and/or

- the quality of analysis was not robust enough to form a solid basis for judgement, and/or
- there was a timing issue.<sup>36</sup>

62. The further project development and analysis was to occur as part of Infrastructure Australia updating the Final Priority List, expected to be issued on 30 June 2010. However, by May 2010, before Infrastructure Australia had come to any conclusions about whether funding should be recommended in respect to the 28 pipeline projects, the Government had announced funding for 10 of the pipeline projects (see also Figure S1). Specifically:

- prior to the Final Priority List being published, the Government had committed funding in relation to two of the pipeline projects;
- a further six pipeline projects were announced in the May 2009 Budget to receive funding; and
- another two pipeline projects were announced in the May 2010 Budget to receive funding.

63. In this context, the experience with the NSW Government's West Metro project highlights the increased risks that are involved in funding projects that have not yet demonstrated their economic viability. The May 2009 Budget had included \$91 million towards engineering and design work to further develop the West Metro project. Together with the CBD Metro project, the West Metro project had been included as a pipeline project in the Final Priority List notwithstanding that the Office of the Infrastructure Coordinator's final assessment was there were 'substantial questions' about the economic viability of both projects, given that neither had a claimed BCR above 1.0.<sup>37</sup> In February 2010 the New South Wales Government announced that construction would not proceed in respect to either the CBD Metro or West Metro projects.

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<sup>36</sup> Infrastructure Australia, *National Infrastructure Priorities: Infrastructure for an economically, socially and environmentally sustainable future*, May 2009, pp. 8 and 9.

<sup>37</sup> In each instance, the assessment noted that there were also questions about the way in which the BCRs had been calculated, such that the claimed BCRs may have been overstated.

## Summary of agency response

64. A copy of the proposed report was provided to the Infrastructure Coordinator, the Infrastructure Australia Council and DITRD LG. Infrastructure Australia provided formal comments on the audit report, as follows:

The Infrastructure Australia Council has welcomed the involvement and continuing relationship with your office.

Infrastructure Australia supports the thrust of the recommendations made by the Auditor-General. With regards to recommendation 3(b), while we agree that making the case for public funding and its exact form is important, the split between jurisdictions will be influenced by a wide variety of factors. Funding is obviously a matter for the Government to decide taking into account these factors in considering competing budget priorities.

# Recommendations

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*Set out below are ANAO's recommendations and Infrastructure Australia's responses. As applicable, more detailed responses are shown in the body of the report immediately after each recommendation.*

## **Recommendation No. 1**

### **Paragraph 5.29**

ANAO recommends 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 response:** *Agreed*

## **Recommendation No. 2**

### **Paragraph 5.73**

In light of the important role Infrastructure Australia seeks to play in promoting best practice infrastructure planning and decision-making, ANAO recommends that future prioritisation processes include information in the published guidance on 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 considered for possible funding.

**Infrastructure Australia response:** *Agreed*

**Recommendation  
No. 3**

**Paragraph 5.88**

ANAO recommends that Infrastructure Australia, where reporting the results of future infrastructure project prioritisation processes, provide clear advice on:

- (a) the relative priority of projects recommended for funding consideration having regard to the results of its appraisal of their economic merits and other factors taken into account in the prioritisation process;
- (b) the level and form of Commonwealth funding it recommends for priority projects that are ready to proceed, together with any conditions it suggests should be attached to this funding; and
- (c) any other projects it would support being considered for planning and/or design work funding.

**Infrastructure Australia response:** *Agreed to part (a) and (c) and agreed with qualification with part (b).*

# **Audit Findings and Conclusions**



# 1. Introduction

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*This chapter outlines the establishment of Infrastructure Australia and the Building Australia Fund, as well as providing an overview of Infrastructure Australia's proposed work program in 2008 and 2009. It also explains ANAO's audit approach.*

## Background

**1.1** In May 2005, Stephen Smith, the then Shadow Minister for Industry, Infrastructure and Industrial Relations, announced the Australian Labor Party's (ALP) intention to create a nationally led and coordinated authority to work with the States and Territories to identify and achieve the most effective outcomes for nationally significant infrastructure, titled Infrastructure Australia.<sup>38</sup> Two years later, the ALP's 2007 National Platform and Constitution reiterated the ALP's intention to establish Infrastructure Australia as an independent statutory authority to assist in the planning and coordination of Australia's infrastructure needs.<sup>39</sup> In the lead-up to the 2007 Federal Election, the ALP subsequently made a commitment to establish Infrastructure Australia within 100 days of being in government, if elected (that is, by 12 March 2008).<sup>40</sup>

**1.2** In response to this election commitment, on 21 January 2008, the then Prime Minister and Minister for Infrastructure, Transport, Regional Development and Local Government announced that the Government had approved the establishment of Infrastructure Australia, as a statutory advisory council to be made up of 12 members representative of industry and all levels of government.<sup>41</sup> As part of this announcement, the Government indicated that

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<sup>38</sup> Stephen Smith (then Shadow Minister for Industry, Infrastructure and Industrial Relations), *Announcement of Infrastructure Australia*, Media Release, 12 May 2005.

<sup>39</sup> Australian Labor Party, *National Platform and Constitution 2007*, April 2007, page 72. This followed the release of the *Report of the Australian Labor Party Inquiry into the Financing and Provision of Australian Infrastructure*, April 2007, which also recommended the establishment of a national infrastructure advisory council.

<sup>40</sup> Minister for Infrastructure, Transport, Regional Development and Local Government, *Infrastructure Australia Bill 2008, Second Reading Speech*, House of Representatives, 21 February 2008.

<sup>41</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government) and the Hon Kevin Rudd MP (Prime Minister), *Rudd Government to dramatically overhaul national infrastructure policy*, Joint Media Statement, 21 January 2008.

Infrastructure Australia's first Infrastructure Priority List would be completed within 12 months, following an audit of the nation's infrastructure shortfalls.

**1.3** The Infrastructure Australia Bill was introduced into the House of Representatives on 21 February 2008. In the second reading speech for the Bill, the Minister for Infrastructure, Transport, Regional Development and Local Government indicated that a lack of infrastructure investment in Australia was reducing Australia's productivity, and adversely affecting Australian families and businesses. In respect of addressing Australia's infrastructure needs, the Minister identified the need for:

- coordinated decision-making between all levels of government and all sectors of the economy;
- certainty in planning and evaluation processes; and
- objective decision-making based on long-term need, not short-term political interests.

**1.4** In his second reading speech, the Minister indicated that Infrastructure Australia would help address these needs. Specifically, it would provide a 'strategic blueprint' for the nation's future infrastructure needs, to be implemented by the Commonwealth in partnership with the States and Territories and in consultation with the private sector and local government. In this context, the Minister emphasised that Infrastructure Australia was a new approach to the provision of public infrastructure.

## Establishment of Infrastructure Australia

### **The *Infrastructure Australia Act 2008***

**1.5** The *Infrastructure Australia Act 2008* (the Infrastructure Australia Act) commenced on 9 April 2008. The Act established Infrastructure Australia and section 5 of the Act set out Infrastructure Australia's functions. Its primary function was to provide advice to the Minister, all levels of government, and

investors and owners of infrastructure on matters relating to infrastructure.<sup>42</sup> This included in relation to Australia's current and future needs and priorities relating to 'nationally significant infrastructure.' 'Nationally significant infrastructure' was defined in the Act as including transport, energy, communications and water infrastructure in which investment or further investment will materially improve national productivity.

**1.6** In addition to this primary function, Infrastructure Australia was also given a number of additional functions under section 5 of the Act. These included:

- conducting audits to determine the adequacy, capacity and condition of nationally significant infrastructure, taking into account forecast growth;
- developing lists (to be known as Infrastructure Priority Lists) that prioritise Australia's infrastructure needs;
- evaluating proposals for investment in, or enhancements to, nationally significant infrastructure (only on request by the Minister); and
- reviewing Commonwealth infrastructure funding programs to ensure they align with any Infrastructure Priority Lists (only on request by the Minister).

**1.7** Under the Act, the Minister for Infrastructure, Transport, Regional Development and Local Government can issue directions to Infrastructure Australia, of a general nature, about the performance of its functions.

## **Membership of Infrastructure Australia**

**1.8** Section 7 of the Infrastructure Australia Act provides that Infrastructure Australia consists of the Chair and 11 other members. Members

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<sup>42</sup> In the course of the development of the Infrastructure Australia Bill, the Australian Government Solicitor (AGS) advised the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG) in February 2008 that the Bill was supported by the Commonwealth's implied nationhood power, on the basis that: the Bill confers functions on a national body (that is Infrastructure Australia) that are peculiarly adapted to the national government; the Bill does not encroach upon the States' executive and legislative powers; there is no present prospect for the States and Territories to act collectively to achieve the relevant outcome, that is, better coordinated infrastructure planning and investment across Australia, as effectively as the Bill; and the Bill does not provide for any coercive action to be taken by any person.

of Infrastructure Australia (known in this report as the Infrastructure Australia Council) are appointed by the Minister.<sup>43</sup> Nine members of Infrastructure Australia (including the Chair) are nominated by the Commonwealth, whilst the remaining three are nominated by agreement between the States and Territories. To be eligible for appointment, each Member must have knowledge of, or experience in, a field relevant to Infrastructure Australia's functions.<sup>44</sup> In addition, from the nine members nominated by the Commonwealth, five must have acquired their knowledge or experience in the private sector, and one in local government.<sup>45</sup>

**1.9** The Chair of Infrastructure Australia, Sir Rod Eddington, was announced by the Minister for Infrastructure, Transport, Regional Development and Local Government on 26 February 2008.<sup>46</sup> His appointment is on a part-time basis, for a period of three years (from 9 April 2008 to 8 April 2011).<sup>47</sup>

**1.10** The other eleven members of Infrastructure Australia were announced on 19 May 2008.<sup>48</sup> The three members nominated by State and Territory Governments were Mr Jim Hallion, Mr Anthony Kannis and Dr Kerry Schott. The other members were Professor Peter Newman (for local government expertise); The Hon Mark Birrell (private sector nominee); Mr Phil Hennessy (private sector nominee); Ms Heather Ridout (private sector nominee); Mr Ross Rolfe (private sector nominee); Mr Garry Weaven (private sector nominee); Mr Terry Moran (Secretary of the Commonwealth Department of the Prime Minister and Cabinet); and Dr Ken Henry (Secretary of the Commonwealth Department of the Treasury). Each of these appointments is on a part-time

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<sup>43</sup> Section 8(1) of the Infrastructure Australia Act.

<sup>44</sup> Section 8(2)(a) of the Infrastructure Australia Act.

<sup>45</sup> Sections 8(2)(c) and (d) of the Infrastructure Australia Act.

<sup>46</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Sir Rod Eddington appointed to head Infrastructure Australia*, Media Release, 26 February 2008.

<sup>47</sup> The Instrument of appointment was signed by the Minister for Infrastructure, Transport, Regional Development and Local Government on 21 May 2008.

<sup>48</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Membership of Infrastructure Australia*, Media Release, 19 May 2008.

basis for a period of nearly three years, from the date of appointment on 21 May 2008 until 8 April 2011.<sup>49</sup>

**1.11** Two acting members were also appointed by the Minister to act as proxy members for the Secretaries of the Department of the Prime Minister and Cabinet and the Treasury.

## **The Infrastructure Coordinator**

**1.12** Section 27 of the Infrastructure Australia Act establishes an 'Infrastructure Coordinator'. The primary function of the Infrastructure Coordinator under the Act is to assist Infrastructure Australia in the performance of its functions. The Infrastructure Coordinator is appointed by the Minister on a full-time basis for a period not exceeding five years.

**1.13** The Minister for Infrastructure, Transport, Regional Development and Local Government requested that the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG) engage Mr Michael Deegan to assist the Minister in his role as the Chair of the Council of Australian Governments (COAG) Infrastructure Working Group in early 2008. A contract was signed between DITRD LG and the company engaging Mr Deegan in January and February 2008.

**1.14** Applications for the role of Infrastructure Coordinator role were called for in March 2008. The appointment of the inaugural Infrastructure Coordinator, Mr Michael Deegan, was announced on 22 June 2008, with his role formally commencing on 1 July 2008.<sup>50</sup>

**1.15** The Office of the Infrastructure Coordinator supports the Infrastructure Coordinator in his role. As of October 2009, there were 16 permanent staff members in the Office of the Infrastructure Coordinator (including four staff in

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<sup>49</sup> In his Statement of Expectations dated 3 June 2008, the Minister for Infrastructure, Transport, Regional Development and Local Government requested that the Infrastructure Coordinator also be invited to attend meetings of the Infrastructure Australia Council.

<sup>50</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Appointment of Infrastructure Coordinator*, Media Release, 22 June 2008.

the Major Cities Unit<sup>51</sup> staff). As well as these permanent staff members, the Office engages a range of external advisors and secondees from State and Territory governments to undertake its functions.

**1.16** Infrastructure Australia is a departmental body recognised in legislation<sup>52</sup> (rather than a prescribed agency under the *Financial Management and Accountability Act 1997* (FMA Act)). Accordingly, the Office of the Infrastructure Coordinator operates within the legal framework of DITRDG. Specifically:

- staff are engaged under the *Public Service Act 1999*, and are employees of DITRDG;<sup>53</sup> and
- financial reporting is consolidated within the annual financial statements of the DITRDG.

**1.17** For the purposes of this audit report, the term 'Infrastructure Australia' is used to refer jointly to the Infrastructure Australia Council, the Infrastructure Coordinator and the Office of the Infrastructure Coordinator. Otherwise, the report explicitly refers to the relevant party.

## **Funding arrangements**

**1.18** The May 2008 Budget included \$20 million over four years to fund the Office of the Infrastructure Coordinator, with \$0.5 million for 2007–08 and \$6.5 million in each of the remaining three years. A further \$1.0 million per annum is provided for the Major Cities Unit.<sup>54</sup> As the Office of the Infrastructure Coordinator does not have responsibility for administering funding that may be approved for infrastructure projects that it has recommended, it has no administered funds.

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<sup>51</sup> The Major Cities Unit focuses on national urban policy. Sources: Senate Committee on Rural and Regional Affairs and Transport, Estimates Hansard from Wednesday 27 May 2009, p. 64 and Senate Committee on Rural and Regional Affairs and Transport, Estimates Hansard from Tuesday 20 October 2009, p. 37.

<sup>52</sup> Department of Finance and Deregulation, *List of Australian Government Bodies and Governance Relationships as at 1 October 2009*, 3<sup>rd</sup> Edition, Financial Management Reference No. 1, p. 458.

<sup>53</sup> Explanatory Memorandum to the Infrastructure Australia Act.

<sup>54</sup> The \$6.5 million budget allocated to the Office of the Infrastructure Coordinator is required to meet any budget deficits of the Major Cities Unit.

**1.19** Although the 2007 election policy was that Infrastructure Australia would be established as an independent statutory authority (see paragraph 1.1), it was actually established as part of DITRD LG and not as either a statutory authority or a prescribed agency under the FMA Act. Accordingly, the Office of the Infrastructure Coordinator's funding is appropriated within that of DITRD LG. Specifically, the Office of the Infrastructure Coordinator funding is included within the departmental outputs funding for the Department's Outcome 1 'Improved infrastructure across Australia through investment in and coordination of transport and other infrastructure'.

**1.20** Departmental outputs are appropriated as a single amount for each entity, such that the \$7.5 million per annum annual funding for the Office of the Infrastructure Coordinator and the Major Cities Unit is able to be used to fund any departmental expenditure. In this context, the Office of the Infrastructure Coordinator advised ANAO that corporate overheads for 2009–10 are expected to be some \$1.876 million, comprising:

- rent and property operating expenses of some \$1.2 million per annum;<sup>55</sup> and
- \$625 000 for DITRD LG's provision of a range of corporate facilities and support, such as legal services and security.

## Work program for Infrastructure Australia in 2008 and 2009

### The Council of Australian Governments

**1.21** The Minister for Infrastructure, Transport, Regional Development and Local Government wrote to the then Prime Minister in December 2007, prior to the establishment of Infrastructure Australia, requesting that the establishment of Infrastructure Australia be placed on the agenda for the next Council of Australian Governments (COAG) meeting.

**1.22** In December 2007, COAG agreed that it would nominate infrastructure as one of its policy priorities and would establish an Infrastructure Working

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<sup>55</sup> The Office of the Infrastructure Coordinator is located in Sydney, New South Wales. The accommodation arrangements for the Office of the Infrastructure Coordinator were settled by DITRD LG prior to Infrastructure Australia's establishment.

Group, chaired by the Minister for Infrastructure, Transport, Regional Development and Local Government. COAG also agreed that the immediate priority for the Infrastructure Working Group was to develop an implementation plan (for consideration at the March 2008 COAG meeting) covering:

- mechanisms for Infrastructure Australia to report to COAG<sup>56</sup>;
- the scope of the National Infrastructure Audit, which was to examine the future capacity of transport, energy, communications and water infrastructure (see Chapter Two for further details); and
- a forward work program for Infrastructure Australia (including scope for the streamlining of planning and approval processes, standardisation of project appraisal techniques and the guidelines and principles for the assessment of Public Private Partnerships).

**1.23** In accordance with this request, the Infrastructure Working Group agreed an implementation plan in March 2008, covering each of these items, which was forwarded to COAG for its consideration. In respect of the forward work program for Infrastructure Australia, the COAG Communique of 26 March 2008 records that COAG agreed with the three priorities put forward by the Infrastructure Working Group, as follows:

- the completion of the National Infrastructure Audit by the end of 2008;
- the development of the Infrastructure Priority List for COAG consideration in March 2009; and

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<sup>56</sup> These were incorporated into the implementation plan forwarded to COAG, and are as follows: Infrastructure Australia is to report to COAG on its activities annually and as requested by COAG or the Commonwealth Minister for Infrastructure; Infrastructure Australia's reports to COAG are to be conveyed through the Commonwealth Minister for Infrastructure, as Chair of COAG's Infrastructure Working Group; advice and reports by Infrastructure Australia to COAG will be accompanied by appropriate advice and contextual material agreed by the COAG Infrastructure Working Group; Infrastructure Australia's reports to COAG will be made public if agreed by COAG; and the COAG Infrastructure Working Group will ensure that advice to COAG is coordinated, where relevant, across COAG Working Groups, in particular between the Infrastructure and the Business Regulation and Competition working groups.

- the development of best practice guidelines for Public Private Partnerships for COAG's consideration by October 2008.<sup>57</sup>

## Statement of Expectations and Statement of Intent

**1.24** The Minister for Infrastructure, Transport, Regional Development and Local Government wrote to the Chair of the Infrastructure Australia Council on 3 June 2008, setting out his expectations for Infrastructure Australia over the next 12 months to 30 June 2009. This set out a range of matters relating to the establishment of Infrastructure Australia, including: the proposed timing of meetings; reporting arrangements for Infrastructure Australia; the proposed appointment of the Infrastructure Coordinator; staffing matters; funding arrangements; Infrastructure Australia's forward work plan; and Infrastructure Australia's reporting to COAG.

**1.25** In responding to the Minister's expectations, the Chair indicated that his intentions for Infrastructure Australia for the year were to establish the effective operation of Infrastructure Australia to meet the Minister's expectations, including the work program agreed by COAG (outlined above). The Chair also indicated that Infrastructure Australia would work closely with the COAG Infrastructure Working Group to progress immediate priorities and to develop a forward work program for work beyond March 2009.

**1.26** At the Infrastructure Australia Council meeting in October 2008, the Infrastructure Australia Council approved a set of objectives, strategic priorities and principles in analysis and decision-making for Infrastructure Australia. These are outlined in Table 1.1.

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<sup>57</sup> The timeframe outlined in the COAG Communique of 26 March 2008 for completion of the PPP guidelines is different to the timeframe outlined in the Infrastructure Working Group papers for Meeting 2 (see agenda items 7 and 9, which state that the National PPP Guidelines are to be completed by the end of 2008).

**Table 1.1**

**Objectives, strategic priorities and principles for Infrastructure Australia**

<p>– Objectives</p>	<ul style="list-style-type: none"> <li>• Increased economic standard of living for Australians.</li> <li>• Environmental sustainability and reduced greenhouse gas emissions.</li> <li>• Better social outcomes, quality of life and reduced social disadvantage in our cities and our regions.</li> </ul>
<p>– Strategic priorities</p>	<ul style="list-style-type: none"> <li>• Expand Australia's productive capacity.</li> <li>• Increase Australia's productivity.</li> <li>• Diversify Australia's economic capabilities.</li> <li>• Build on Australia's global competitive advantages.</li> <li>• Develop our cities and/or regions.</li> <li>• Reduce greenhouse emissions.</li> <li>• Improve social equity and quality of life in our cities and our regions.</li> </ul>
<p>– Principles in analysis and decision-making</p>	<ul style="list-style-type: none"> <li>• National perspective to complement State and Territory ambitions.</li> <li>• Triple bottom line approach (economic, environmental and social).</li> <li>• Efficient use of existing infrastructure and resources.</li> <li>• Maximise the productivity of people and assets.</li> <li>• Examine supply and demand side patterns, options and solutions.</li> <li>• A long-term, whole-of-life approach.</li> <li>• Optimise the role of both the public and private sector.</li> </ul>

Source: Meeting papers for Meeting Four of Infrastructure Australia Council, 1 October 2008.

## The Building Australia Fund

**1.27** The Building Australia Fund is one of the three nation building funds announced as part of the 2008–09 Federal Budget (the other funds being the

Health and Hospitals Fund and the Education Investment Fund).<sup>58</sup> The three nation building funds were established through the *Nation-building Funds Act 2008* (the Nation-building Funds Act).

**1.28** On 13 May 2008, the Minister for Infrastructure, Transport, Regional Development and Local Government announced that it would allocate an initial \$20 billion to the Building Australia Fund.<sup>59</sup> The Government has indicated that allocations from the Building Australia Fund will be guided by Infrastructure Australia's national Audit and Infrastructure Priority List.<sup>60</sup>

**1.29** The Building Australia Fund consists of the Building Australia Fund Special Account<sup>61</sup> and investments of the Building Australia Fund. The Nation-building Funds Act provides for the crediting and debiting of amounts to the Building Australia Fund Special Account. Credits are to be made in accordance with Sections 14 to 17 of the Nation-building Funds Act. Amounts are debited from the Building Australia Fund Special Account in accordance with its purposes, as defined in the Nation-building Funds Act. The main purposes of the Building Australia Fund Special Account<sup>62</sup> are to make payments in relation to the creation or development of transport infrastructure, communications infrastructure, energy infrastructure or water infrastructure and to make payments in relation to eligible national broadband network matters.

**1.30** The Finance Minister must authorise any payments to be made from the Building Australia Fund Special Account in relation to the above purposes. For the Finance Minister to authorise a payment to be made from the Building Australia Fund Special Account for these purposes, the Finance Minister must

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<sup>58</sup> The Hon Wayne Swan MP (Treasurer of the Commonwealth of Australia), *2008–09 Budget—Delivering our commitments to the future*, Media Release, 13 May 2008.

<sup>59</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *\$20 billion for nation-building projects*, Media Release, 13 May 2008.

<sup>60</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *\$20 billion for nation-building projects*, Media Release, 13 May 2008.

<sup>61</sup> Established through Section 13 of the Nation-building Funds Act.

<sup>62</sup> As outlined in Section 18 of the Nation-building Funds Act.

receive a recommendation from the relevant Minister.<sup>63</sup> For eligible national broadband matters, the Communications Minister may make a recommendation without obtaining advice from Infrastructure Australia. For the remaining payments that may be made from the Building Australia Fund Special Account, the relevant Minister is required to obtain advice from Infrastructure Australia prior to making a recommendation to the Finance Minister. Sections 116 to 119 of the Nation-building Funds Act provide that when providing advice to the relevant Minister, Infrastructure Australia must apply the Building Australia Fund evaluation criteria.

**1.31** Section 120 provides for the Infrastructure Minister to formulate the Building Australia Fund evaluation criteria. The Building Australia Fund criteria are as follows:

- the extent to which projects address national infrastructure priorities;
- the extent to which proposals are well justified with evidence and data;
- the extent of efficiency and co-investment; and
- the extent to which efficient planning and implementation has occurred.<sup>64</sup>

**1.32** The Minister for Infrastructure, Transport, Regional Development and Local Government wrote to the Chair of the Infrastructure Australia Council in November 2008 requesting that Infrastructure Australia's advice on the outcome of the application of the interim Building Australia Fund evaluation

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<sup>63</sup> For transport infrastructure, this is the Infrastructure Minister. For communications infrastructure and in relation to national broadband network matters, this is the Communications Minister. For Energy infrastructure, this is the Energy Minister and for water infrastructure this is the Water Minister.

<sup>64</sup> Under Section 120 of the Nation-building Funds Act, the Infrastructure Minister was to formulate Building Australia Fund evaluation criteria to be applied by Infrastructure Australia. These were to be in force at all times after 1 January 2009. 'Interim' Building Australia Fund evaluation criteria were originally published on the Infrastructure Australia website, and subsequently replaced by 'final' evaluation criteria during 2009. Sections 9-12 of Schedule 3 of the *Nation-building Funds (Consequential Amendments) Act 2008* provided that if, before 1 January 2009, interim Building Australia Fund evaluation criteria were published on a Commonwealth website and if, before 1 January 2009 Infrastructure Australia had advised the relevant Minister that a payment satisfied the relevant interim Building Australia Fund evaluation criteria, the *Nation-building Funds Act* had effect as if Infrastructure Australia had advised the relevant Minister under Sections 116-119 of this Act. The final Building Australia Fund Evaluation Criteria legislative instrument was registered on 22 December 2008 and tabled in Parliament on 3 February 2009.

criteria be provided to Government, together with the Interim Priority List.<sup>65</sup> He also advised that there was scope, where appropriate, for project proposals to be assessed as conditionally meeting the criteria if Infrastructure Australia considered the criteria would be met prior to funding commencing.

## ANAO audit approach

**1.33** In November 2008, the Infrastructure Coordinator wrote to the Auditor-General 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.

**1.34** The Auditor-General agreed to this request as it was consistent with the published audit strategy for the Infrastructure, Transport, Regional Development and Local Government portfolio. The objective for the Australian National Audit Office (ANAO) performance 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:

- the submissions process, and the methodology used to assess submissions;
- the overall conduct of the Audit process;
- the formulation of the Interim and Final Infrastructure Priority Lists; and
- the provision of advice and recommendations to the Government.

**1.35** Audit work originally commenced in March 2009 but was put on hold in late June 2009 in order to respond to a request from the then Prime Minister for a performance audit of a range of matters relating to representations to the Treasury regarding automotive finance arrangements for car dealers. Audit work re-commenced in August 2009.

**1.36** The audit involved examination of relevant documentation held within the Office of the Infrastructure Coordinator (including papers and Minutes

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<sup>65</sup> The interim and final evaluation criteria were the same.

relating to Council meetings), DITRDLG, the Department of Finance and Deregulation, the Department of the Treasury and the Department of the Prime Minister and Cabinet. ANAO also discussed the conduct of the Infrastructure Australia processes with a selection of project proponents.

**1.37** Between February and March 2010, four audit Issues Papers were provided to the Office of the Infrastructure Coordinator so as to verify the accuracy and completeness of the information and audit analysis included in them and to obtain views on conclusions reached, as an input to the preparation of the proposed audit report to be issued under Section 19 of the *Auditor-General Act 1997*. Two of the Issues Papers were also provided to DITRDLG, given the role of the department in the establishment of Infrastructure Australia, and in advising the Government on the funding of some of the projects included on the Final Priority List.

**1.38** In addition to a number of meetings with the Infrastructure Coordinator and his Office to discuss the Issues Papers, ANAO discussed the preliminary audit findings and conclusions with the Chair of the Infrastructure Australia Council. To inform these discussions, in May 2010 the Chair was provided with an advance version of the proposed audit report.

**1.39** The formal proposed report was issued in June 2010 to the Infrastructure Coordinator, the Infrastructure Australia Council and DITRDLG. Written comments were provided by the Council and the Infrastructure Coordinator, with various amendments made as appropriate in the report.<sup>66</sup> In addition, Infrastructure Australia provided formal comments on the report, which have been reproduced in full.

**1.40** The audit was conducted under Section 18 of the *Auditor-General Act 1997*, in accordance with ANAO Auditing Standards at an estimated cost to the ANAO of \$573 000.

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<sup>66</sup> In this respect, a revised proposed report was provided to the Council and the Infrastructure Coordinator to inform further discussions, and the deadline for any written comments was extended by 12 days.

## 2. The National Infrastructure Audit

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*This chapter outlines the terms of reference for the National Infrastructure Audit, its methodology and the report provided to COAG in December 2008.*

### Background

**2.1** COAG, in March 2008, agreed to the Infrastructure Working Group's recommendation that the National Infrastructure Audit be one of the immediate priorities for Infrastructure Australia, the others being the development of an Infrastructure Priority List and development of National Public Private Partnership Guidelines.<sup>67</sup>

**2.2** The terms of reference for the National Infrastructure Audit were agreed by the COAG Infrastructure Working Group in its first meeting in January 2008 and were as follows:

Infrastructure Australia is to undertake a National Infrastructure Audit to determine the adequacy, capacity and condition of nationally significant infrastructure taking account of forecast growth.

'Nationally significant infrastructure' includes (but is not limited to) infrastructure and infrastructure networks in the water, energy, transport and communications sectors (the operations of which materially impact on productivity growth.)

The Audit is to identify gaps, deficiencies, impediments and bottlenecks in the identified sectors as measured against expected future demand.

**2.3** It was envisaged by the COAG Infrastructure Working Group that development of the Infrastructure Priority List was to be informed by the outcomes of the National Infrastructure Audit. The National Infrastructure Audit was to be completed by December 2008.

**2.4** The deadline for completion of the Infrastructure Priority List was brought forward in October 2008 by COAG. It was originally to be completed by March 2009. However, in the context of the global financial crisis, it was to be completed by December 2008, the same deadline for the National

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<sup>67</sup> Council of Australian Governments Meeting, 26 March 2008, Communique, p. 6.

Infrastructure Audit. According to the COAG communiqué from the October 2008 meeting, this was to 'enable the Commonwealth, advised by Infrastructure Australia, to make timely decisions on projects that will advance Australia's nation building agenda.'<sup>68</sup> This put added pressure on Infrastructure Australia for the completion of both the National Infrastructure Audit and the preparation of the Infrastructure Priority List.

## National Infrastructure Audit submissions

**2.5** The first type of evidence gathered for the purposes of the National Infrastructure Audit was from States and Territories. The Minister for Infrastructure, Transport, Regional Development and Local Government wrote to State and Territory governments on 29 April 2008 seeking their draft input to his Ministerial Office by 16 May 2008, with final submissions due by 30 June 2008.

**2.6** To assist the State and Territory governments in the development of their submissions, the Commonwealth Department of the Treasury developed an Audit template, subsequently agreed by the Infrastructure Working Group in its meeting of 6 March 2008. This template suggested that those making submissions should concentrate on identifying core strategic priorities and issues, without extensive technical details, with an indicative length of around 50 pages. The template recommended three major parts to jurisdiction submissions:

- a summary of key infrastructure issues facing the State or Territory. This was to include key findings on current and/or emerging infrastructure gaps or bottlenecks. As part of this section, States and Territories were also asked to identify their general approach to developing productive capacity and their major infrastructure priorities;
- sectoral analysis on specific infrastructure sectors; and
- a brief analysis of relevant infrastructure capacities and future requirements for their key regions and cities.

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<sup>68</sup> Council of Australian Governments Meeting, 2 October 2008, Communiqué, p. 3.

**2.7** Each of the States and Territories made a final submission to the National Infrastructure Audit, in either June or July 2008.<sup>69</sup> Three organisations which were not State and Territory governments also made submissions to the National Infrastructure Audit—the Minister for Infrastructure, Transport, Regional Development and Local Government (on behalf of the Commonwealth Government), the Australian Rail Track Corporation (ARTC) and the Brisbane City Council.

**2.8** The State and Territory government submissions varied significantly in format and approach, and did not strictly follow the National Infrastructure Audit template. However, nearly all of them contained sectoral analysis of infrastructure within the State and Territory, and a set of infrastructure priorities for the State or Territory.

**2.9** The non-State and Territory government submissions also varied in their analytical approach:

- the Commonwealth Government submission provided a sectoral analysis of Australia's infrastructure, relating to the transport, energy, resources, water and telecommunications sectors. This analysis included information on proposed and current Commonwealth Government action in these areas. In this context, the submission contained information on the proposed National Broadband Network;
- Brisbane City Council's submission contained a summary of the economic profiles of Brisbane's transport corridors, as well as information on proposed road, bikeway and busway projects; and
- the ARTC submission contained a range of strategic documents relating to the development of its rail network.

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<sup>69</sup> Where covering letters were retained on DITRD LG or the Office of the Infrastructure Coordinator records, the letters were addressed to the Minister for Infrastructure, Transport, Regional Development and Local Government or his office (in four instances), the then Prime Minister in one instance, the Chair of the Infrastructure Australia Council in one instance and the Chair of the Infrastructure Australia Council care of DITRD LG in one instance.

## Infrastructure Australia's work on the National Infrastructure Audit

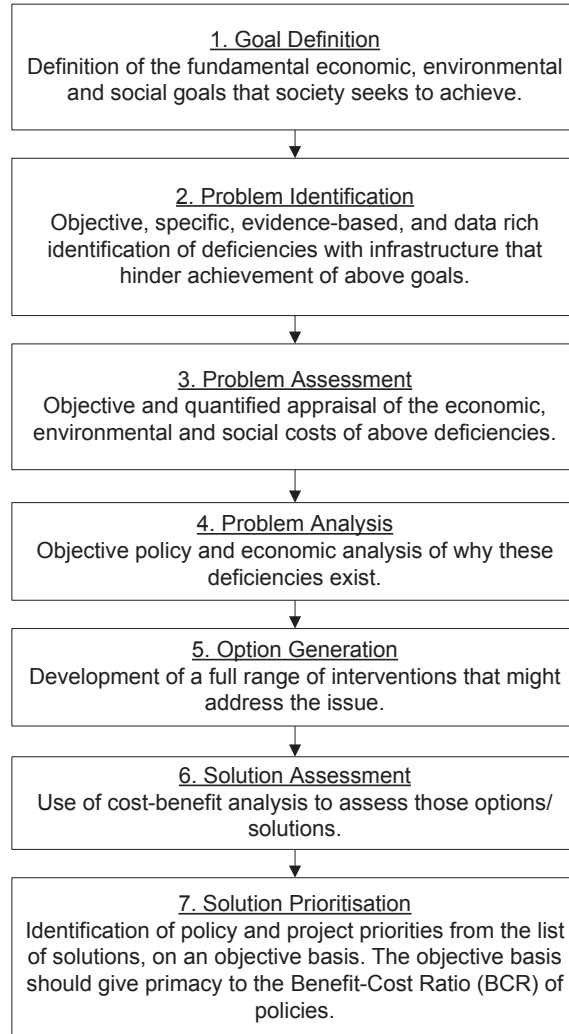
**2.10** Infrastructure Australia was responsible for assessing the submissions made to the National Infrastructure Audit. However, submissions were requested in April 2008, prior to the first meeting of the Infrastructure Australia Council (4 June 2008) and prior to the commencement of the Infrastructure Coordinator (1 July 2008). As such, Infrastructure Australia had no input into the format or content requested of initial submissions made to the National Infrastructure Audit.

**2.11** The Office of the Infrastructure Coordinator advised ANAO in April 2010 that:

By the end of July 2008, States and Territories submitted to the Office of the Infrastructure Coordinator their responses to the April 2008 request from the Minister for Infrastructure, Transport, Regional Development and Local Government.

The information supplied to Infrastructure Australia did not permit any detailed estimation of the capacity [or] adequacy of the nation's infrastructure networks sufficient to identify gaps in our infrastructure system. One of the reasons that relevant information was not supplied lies in the fact that it was not sought or agreed via the Infrastructure Working Group template. The template only permitted, at best, high level information regarding individual jurisdiction's perceptions of infrastructure capacity. Indeed, the submissions to the Audit were limited to approximately 50 pages.

**2.12** In its second meeting held on 30 July 2008, the Infrastructure Australia Council endorsed an analytical framework for undertaking the National Infrastructure Audit. This seven-stage process was to be the benchmark against which to assess State and Territory submissions. This is outlined in Figure 2.1.

**Figure 2.1****National Infrastructure Audit analytical framework**

Source: ANAO summary of paper provided in Infrastructure Australia Council Meeting Papers dated 30 July 2008.

**2.13** The Office of the Infrastructure Coordinator wrote to each of the State and Territory governments<sup>70</sup> in August 2008<sup>71</sup> seeking further information in the context of the new analytical framework. The Office of the Infrastructure Coordinator advised ANAO in April 2010 that:

The intent was to gain necessary detail beyond that already provided under the Infrastructure Working Group's template, which Infrastructure Australia inherited.

**2.14** The Office of the Infrastructure Coordinator requested the following further information from each of the States and Territories, in relation to the 'problem assessment' and 'solution assessment' stages of the Audit:

- an objective and quantified appraisal of the economic, environment and social costs of the infrastructure deficiencies that have been identified in the initial Audit submission, to enable it to better understand the costs and impacts of these deficiencies and thus allow for the most pressing matters to be identified and prioritised (the 'problem assessment'); and
- an understanding of the economic and financial appraisal methods used to prioritise particular infrastructure projects, and in particular a copy of any cost-benefit analyses that had been made of those projects and on any other proposed regulatory reform options (the 'solution assessment').

**2.15** This advice was due by 31 August 2008.<sup>72</sup> However, for most State and Territory governments, this request was supplemented by a 23 September 2008

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<sup>70</sup> The Office did not seek further information from the Brisbane City Council or the ARTC in this round of information requests.

<sup>71</sup> For some of these letters, two signed copies were on the Office of the Infrastructure Coordinator's file with different dates, and it was not apparent which of the letters had actually been sent.

<sup>72</sup> The Office of the Infrastructure Coordinator subsequently wrote to the New South Wales Premier on 18 September 2008 to confirm that the submission previously forwarded remained current or alternatively to request that he advise of any changes to the New South Wales submission or the identified priority projects in light of the recent changes in the New South Wales Government. Similarly, the Office of the Infrastructure Coordinator wrote to the Western Australian Premier on 18 September 2008 to confirm that the submission forwarded by the previous government remained current, or alternatively to request that he advise of any changes to the Western Australian submission in light of the recent election. In both of these letters, the Infrastructure Coordinator requested that he be advised on these matters by the end of October 2008.

request for input from State and Territory Governments and the ARTC. In this respect, the Office of the Infrastructure Coordinator advised ANAO in May 2010 that:

The 23 September 2008 request reflected the ongoing analytical work that was being undertaken to support the Audit and the development of the Infrastructure Priority List. As noted in the Minutes of its meeting on 29 August 2008, [the] Infrastructure Australia [Council] had been provided with a presentation of the 'first cut' of the audit/prioritisation process. As this work progressed and was 'fine tuned', it became evident that further information was required from the jurisdictions. It is worth noting that, during this period, Infrastructure Australia was in regular two-way dialogue with the jurisdictions. Contact with the jurisdictions was not limited to the letters of August and September 2008.

**2.16** In August 2008, the Office of the Infrastructure Coordinator also wrote to five Commonwealth Departments<sup>73</sup>, four other Commonwealth government entities<sup>74</sup>; the Australian Energy Market Commission (a joint Commonwealth-State body); and three peak bodies<sup>75</sup> seeking information. The objective of this further input was to identify:

- whether cross-jurisdictional issues had been adequately captured in State/Territory submissions;
- gaps not covered by the previous submissions (such as infrastructure regulation);
- learnings and implications from relevant previous audits and reviews;
- input from any concurrent national reform activities; and
- to obtain Commonwealth advice on issues raised by the States and Territories.

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<sup>73</sup> These were: the Department of the Environment, Water, Heritage and the Arts; the Department of Climate Change; the Department of Broadband, Communications and the Digital Economy; the Department of Infrastructure, Transport, Regional Development and Local Government; and the Department of Resources, Energy and Tourism.

<sup>74</sup> These were: the National Water Commission; the Productivity Commission; the Australian Competition and Consumer Commission; and the Australian Energy Regulator.

<sup>75</sup> These were: the Energy Users Association of Australia; the Water Services Association of Australia; and the Australian Council of Social Service.

**2.17** In August 2008, the Minister for Infrastructure, Transport, Regional Development and Local Government and the Chair of the Infrastructure Australia Council called for members of the public and business community to provide evidence-based submissions to inform the National Infrastructure Audit, the Infrastructure Priority List and the development of guidelines for Public Private Partnerships.<sup>76</sup> In May 2010, the Office of the Infrastructure Coordinator advised ANAO that:

The call for public submissions is significant. It reflected Infrastructure Australia's view that this process should be transparent and seek views from a range of groups. This material, along with material from the jurisdictions, helped inform Infrastructure Australia of the challenges ahead.

**2.18** A range of material was provided by the general public and States and Territories following the various requests.

## Outcome of the National Infrastructure Audit

**2.19** As indicated in paragraph 2.4, the timeframe for the completion of the Infrastructure Priority List was brought forward by COAG in October 2008, which meant the National Infrastructure Audit and the Infrastructure Priority List were both to be completed by December 2008. Infrastructure Australia publicly released the report titled *A Report to the Council of Australian Governments* in December 2008 (the 'December 2008 Report'). According to the Minister for Infrastructure, Transport, Regional Development and Local Government, this represented the results of the 'first ever audit of the condition and adequacy of the nation's transport, water, energy and communications infrastructure.'<sup>77</sup>

**2.20** In formulating the December 2008 Report, Infrastructure Australia relied on a range of material. This included:

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<sup>76</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government) and Sir Rod Eddington (Chair of Infrastructure Australia), *Infrastructure Australia calls for public submissions*, Joint Media Statement, 31 August 2008.

<sup>77</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government) and Sir Rod Eddington (Chair of Infrastructure Australia), *Audit of the Nation's Infrastructure Released*, Joint Media Statement, 19 December 2008.

- submissions made by various organisations as part of the public submissions process, such as the Business Council of Australia, Engineers Australia and the Energy Users Association of Australia;
- existing studies and reports from Commonwealth bodies, such as the Productivity Commission, the Australian Bureau of Statistics, the Department of Climate Change, and the Commonwealth Scientific and Industrial Research Organisation; and
- Commonwealth and State Government submissions made to Infrastructure Australia throughout 2008.

**2.21** In addition, in May 2010, the Office of the Infrastructure Coordinator advised ANAO that, as well as the material provided through the public submission process and by States and Territories:

Infrastructure Australia drew on advice from the Infrastructure Coordinator and the broader remit and understanding of Infrastructure Australia [Council] members as required under the *Infrastructure Australia Act 2008*. In preparing the report on the National Infrastructure Audit, Infrastructure Australia [also] drew upon a range of reports from other parties.

**2.22** State and Territory government submissions made originally in June or July 2008 did not feature heavily in the December 2008 Report. As noted at paragraph 2.8, these submissions had varied significantly in format and approach, and did not strictly follow the National Infrastructure Audit template.

## **Reporting against objectives**

**2.23** The first objective of the National Infrastructure Audit was to determine the adequacy, capacity and condition of nationally significant infrastructure, taking into account forecast growth (see paragraph 2.2). The second objective of the National Infrastructure Audit was to identify gaps, deficiencies, impediments and bottlenecks in the identified sectors as measured against expected future demand.

**2.24** In place of addressing the COAG objectives for the National Infrastructure Audit, the Report identified a range of ‘challenges’ at a national

and location-specific level and Infrastructure Australia's response to these challenges. The challenges at the national level were: 'delivering better governance'; 'creating competitive markets'<sup>78</sup>; 'one economy, one set of rules'<sup>79</sup>, 'better use of existing infrastructure' and 'climate change.' The challenges at the location-specific level were: 'supporting our cities'; 'boosting exports'; 'supporting indigenous communities'<sup>80</sup> and 'supporting rural and regional communities.'

**2.25** Infrastructure Australia formulated seven themes in response to these challenges which reflected their assessment of the main areas where infrastructure reform and investment should be directed. These were: 'a national broadband network'; 'creation of a true national energy market'; 'competitive international gateways'; 'a national rail freight network'; 'adaptable and secure water supplies'; 'transforming our cities' and 'providing essential indigenous services.'

**2.26** In April 2010 the Office of the Infrastructure Coordinator advised ANAO that its view was that, given the data limitations and the available timeframe, the intent of COAG's terms of reference had been satisfied. More specifically, ANAO was advised that:

- there is a 'real question' as to the feasibility and utility of a national infrastructure audit in the timeframes envisaged by COAG, given the absence of a comprehensive or up-to-date audit of infrastructure in any Australian jurisdiction;
- the December 2008 report did not claim to have identified all relevant infrastructure gaps but, rather, included a systematic examination of policy and regulatory matters that, if left unaddressed, could cause physical infrastructure gaps to emerge; and
- the December 2008 report identified seven themes reflecting Infrastructure Australia's assessment of the main areas where infrastructure reform and investment should be directed.

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<sup>78</sup> This section was analysed in the context of the energy, communications, water and transport sectors.

<sup>79</sup> This section was analysed in the context of the energy and transport sectors.

<sup>80</sup> The transport, energy, water and communications sectors were all considered as part of this analysis.

**2.27** In May 2010, the Office of the Infrastructure Coordinator further advised ANAO that:

The National Infrastructure Audit revealed considerable gaps in the national systems for collecting, holding and analysing the data used to inform infrastructure investment decisions. The submission process attempted to address some of these gaps, but this was not successful.

As a consequence, there are areas where Infrastructure Australia continues to work with governments and others, for example, through its strategy work on freight and ports, water, energy, public transport, asset utilisation and cities, as well as our work in reviewing planning approval systems for major infrastructure. Infrastructure Australia's work on long-term infrastructure funding demands is also vitally important in this regard.

**2.28** As part of its response to meeting the challenges, Infrastructure Australia also put forward a list of 94 specific projects for further analysis. This addressed COAG's request to complete an Interim Priority List by December 2008. The development of the Interim Priority List is examined in the next chapter.

### 3. Administrative processes for the development of the Priority Lists

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*This chapter examines Infrastructure Australia's prioritisation methodology, and the associated administrative processes adopted to support the prioritisation of project submissions lodged with the Office of the Infrastructure Coordinator.*

#### Introduction

**3.1** One of the major priorities specified by COAG for Infrastructure Australia in its first year of existence was to formulate an Infrastructure Priority List.<sup>81</sup> The function of providing an Infrastructure Priority List was specifically provided for within the *Infrastructure Australia Act 2008*. Under that Act, one of the primary functions of Infrastructure Australia was to provide advice to the Minister, all levels of government, investors in and owners of infrastructure, in relation to Australia's current and future needs and priorities relating to nationally significant infrastructure.<sup>82</sup> The development of Priority Lists that prioritise Australia's infrastructure needs was also one of the additional Infrastructure Australia functions under the Act,<sup>83</sup> and (at the time it commenced preparing the first List) Infrastructure Australia expected the Infrastructure Priority List to be reviewed on an annual business cycle basis.<sup>84</sup> In advice to ANAO dated April 2010, the Office of the Infrastructure Coordinator advised that the Infrastructure Priority List was to include

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<sup>81</sup> COAG Meeting Communique, 26 March 2008.

<sup>82</sup> Section 5(1)(a) of the *Infrastructure Australia Act 2008*.

<sup>83</sup> Section 5(2)(b) of the *Infrastructure Australia Act 2008*.

<sup>84</sup> Infrastructure Australia, *Outline of Infrastructure Australia's Prioritisation Methodology*, 24 September 2008, p. 3.

infrastructure capital investment decisions as well as infrastructure reform decisions.<sup>85</sup>

**3.2** Infrastructure Australia faced a number of challenging circumstances in developing the Infrastructure Priority List. In particular:

- this was the first time a non-sector specific list of priority infrastructure projects was to be prepared at the Commonwealth level such that the List published in December 2008 included infrastructure projects in the transport, energy, telecommunications, water and health sectors;
- the original timeframe provided to develop the list was nine months (completion in March 2009) but this was reduced (in October 2008, three months into the project), to six months for an interim report (due in December 2008); and
- the Office of the Infrastructure Coordinator was required to develop and implement its own administrative arrangements<sup>86</sup> and make the necessary staff and advisory appointments for its operations concurrently with conducting the National Infrastructure Audit, developing the Priority List and preparing and publishing national Public Private Partnership Guidelines.

**3.3** The Office of the Infrastructure Coordinator advised ANAO in April 2010 that COAG's decision to request Infrastructure Australia to bring forward an Interim Priority List by December 2008 provided it with less than five weeks (in practical terms) from the provision of jurisdictional submissions (and seven weeks for public submissions) to conclude its initial (although not final) assessment of proposals and to then present advice to government. Nevertheless, the deadline of December 2008 was met with advice on a draft

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<sup>85</sup> Specifically, the Office of the Infrastructure Coordinator advised ANAO that it defined an infrastructure priority list as a list which: 'provides guidance to government and industry on Australia's current and future priorities relating to nationally significant infrastructure in the transport, energy, water and communications sectors. These priorities can be categorised into two broad areas: infrastructure capital investment decisions (and the planning and project development activities leading to those decisions); and infrastructure reform decisions, in particular, regulatory and other decisions taken by governments, industry and infrastructure owners in relation to, amongst other things, the management, pricing and operation of infrastructure networks.'

<sup>86</sup> The Infrastructure Coordinator's letter of appointment required that the internal processes be developed in a way that would mean they were consistent with the DITRDG's Chief Executive's Instructions.

Interim Priority List provided to the Minister on 5 December 2008 and the Interim Priority List publicly released on 19 December 2008.

## Prioritisation methodology

**3.4** Infrastructure Australia adopted an overall framework to guide its assessment process. The framework identified that good investment strategy involving problem definition and option development (without, for example, modal prejudices) was crucial to creating a high-quality list of potential investments that best addressed the nation's most pressing infrastructure problems.

**3.5** Infrastructure Australia's 'Prioritisation Methodology' was provided to State and Territory Governments, and the ARTC on 23 September 2008.<sup>87</sup> The Office of the Infrastructure Coordinator has advised ANAO that the Prioritisation Methodology was uploaded to the Infrastructure Australia website on 26 September 2008. The Infrastructure Australia Council endorsed the methodology in its 1 October 2008 meeting, and it was publicly announced by the then Prime Minister on 7 October 2008.<sup>88</sup>

### **Adoption of a staged appraisal process, with economic appraisal to be a primary driver in decision-making**

**3.6** A key aspect of the Infrastructure Australia framework was the development, drawing from international and national-based practices and research,<sup>89</sup> of a staged assessment process to prioritise between investment proposals. In this respect, amongst other sources, Infrastructure Australia's approach drew on the *National Guidelines for Transport System Management* (National Guidelines) which were endorsed by the Australian Transport Council in November 2004, and updated in December 2006.

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<sup>87</sup> It was also provided to the following Commonwealth Departments on 24 September 2008: the Department of Finance and Deregulation; the Department of the Treasury; and the Department of Infrastructure, Transport, Regional Development and Local Government.

<sup>88</sup> Prime Minister of Australia, *Nation-Building for Australia's Future Address to Australian Davos Connection Infrastructure 21 Summit, Sofitel Hotel, Brisbane, 7 October 2008*. Prime Minister of Australia and the Hon Anthony Albanese MP, *Bringing Transparency to Nation Building*, Joint Media Release, 7 October 2008.

<sup>89</sup> Infrastructure Australia, *Outline of Infrastructure Australia's Prioritisation Methodology*, 24 September 2008, p. 3.

**3.7** As outlined in ANAO Audit Report No. 29 2008–09, *Delivery of Projects on the AusLink National Network*, the National Guidelines advocate that all proposed projects should be subject to the same appraisal process and that appraised proposals should be prioritised to develop a forward program of preferred initiatives through a transparent process that is founded on sound economic and business investment principles.<sup>90</sup> The framework set out in the National Guidelines uses a three-stage appraisal process, illustrated in Figure 3.1. The intention is that the projects that pass through all filters demonstrate strategic merit and fit, and perform well in a detailed appraisal, which is to be a:

comprehensive analysis of the impacts and merit of an initiative. A detailed appraisal usually involves detailed Benefit-Cost Analysis, a financial or budget assessment, and specific impact analyses and impact statements (for example, environmental, social, regional, employment, equity). All relevant monetised and non-monetised impacts need to be assessed.<sup>91</sup>

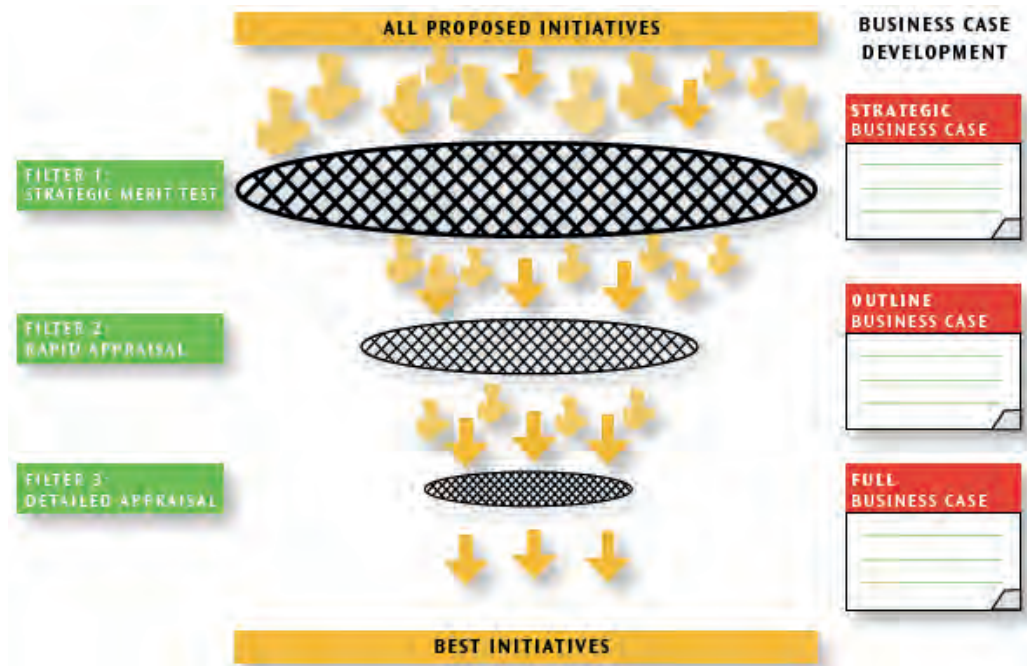
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<sup>90</sup> Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, pp. 18–20.

<sup>91</sup> *ibid.*, p. 19.

**Figure 3.1**

### Three-stage appraisal process for infrastructure projects



Source: Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 2—Strategic transport planning and development, December 2006, p. 54.

3.8 Similar to the stage appraisal process illustrated in Figure 3.1, Infrastructure Australia’s Prioritisation Methodology involved three phases:

- *profiling*, being an analysis of the project’s ‘strategic fit’—how well the project would meet Infrastructure Australia’s strategic priorities;<sup>92</sup>
- *appraisal*, which combined monetised cost-benefit analysis of candidate projects (measured principally through a project’s Benefit-Cost Ratio, or BCR) with analysis of an initiative’s non-monetised effects to determine the wider economic, environmental and social merits of an initiative; and

<sup>92</sup> See further at paragraph 4.9.

- *selection*, in which the outputs of the preceding profiling and appraisal phases were to be used to create a priority list of initiatives to enable informed decision-making for the allocation of funding.

**3.9** Under the Prioritisation Methodology, the profiling and appraisal assessments were to be undertaken by project proponents and reviewed by Infrastructure Australia, whereas the selection phase was solely Infrastructure Australia's responsibility. The Prioritisation Methodology document contained three proformas to assist project proponents in providing information to Infrastructure Australia. These were the 'Summary of Initiative Profiling' (for the profiling phase), the 'Summary of Initiative Appraisal Key Results and Assumptions' (for the appraisal phase) and 'Further Inputs For Initiative Selection' (which provided information about a project's deliverability, timing and packaging with other projects).

**3.10** For each of the assessments, a set of rules was developed to promote objective and comparable assessments. Where appropriate, for instance to validate the economic studies provided by project proponents, external advisors were used to carry out the assessment.<sup>93</sup>

**3.11** The methodology also had regard to the practical circumstances faced in the context of developing the first Infrastructure Priority List. In particular, it allowed for project proposals to be at different stages of development. For example, it was expected that some projects would be 'ready to go', some would be at the conceptual stage but that many were likely to be somewhere along the spectrum between these two points. Accordingly, Infrastructure Australia expected there to be variation in the depth and thoroughness of submissions.

**3.12** Overall, Infrastructure Australia's methodology provided a robust framework for the development of the first Infrastructure Priority List. It was not radically innovative in substance but reflected fundamental elements that have long been advocated as being central to good infrastructure

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<sup>93</sup> DITRD LG published a request for tender in May 2008 to establish a panel of consultants to assist Infrastructure Australia in its work. The Tender Evaluation Committee recommended in September 2008 that 18 of the 87 tenders received be included on the panel, and that the Department enter into contract negotiations with these 18 tenderers. Regulation 9 approval for the panel was signed on 14 May 2008, up to a value of \$5.25 million (GST inclusive).

policymaking. In particular, Infrastructure Australia proposed to use objective cost-benefit analysis (through BCRs) as the 'primary driver' of decision-making.<sup>94</sup> In this respect, the Prioritisation Methodology outlined that:

Cost-benefit analysis (CBA) is the primary appraisal tool by which Infrastructure Australia assesses the net benefit of an initiative. It is an objective tool that combines 'monetised' benefits and costs – those expressed in dollar value terms. In the Infrastructure Australia methodology, as many benefits and costs are monetised as widely as possible. Estimates of wider economic benefits and costs (WEBs) are to be included where relevant...<sup>95</sup>

## Evaluation Plan

**3.13** The Office of the Infrastructure Coordinator documented an Evaluation Plan to cover the development of the Interim Priority List. The approach outlined in the Evaluation Plan was consistent with the published Prioritisation Methodology. This approach represented sound practice.

**3.14** The Evaluation Plan contained a detailed and systematic process for evaluating submissions, in order to establish an Interim Priority List. It was to be used to assist evaluate submissions from State and Territory governments, industry and the public.<sup>96</sup> The ten-step staged process outlined in the Evaluation Plan is in Figure 3.2. Whilst the ten-step staged process outlined in the Evaluation Plan suggested a linear approach to the assessment of proposals, in May 2010 the Office of the Infrastructure Coordinator advised ANAO that:

In fact, as noted in the *Outline of Infrastructure Australia's Prioritisation Methodology*, Infrastructure Australia's process brought together the profiling and appraisal assessments. This was at the core of the merit matrix identified in the Evaluation Plan. The matrix allowed projects with varying ratings from their profiling and appraisal assessments to be recommended as priority projects. Thus, projects with a poor profiling assessment were still assessed against the appraisal criteria, with the project's ultimate merit (and location in

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<sup>94</sup> Infrastructure Australia, *Outline of Infrastructure Australia's Prioritisation Methodology*, 24 September 2008, p. 4.

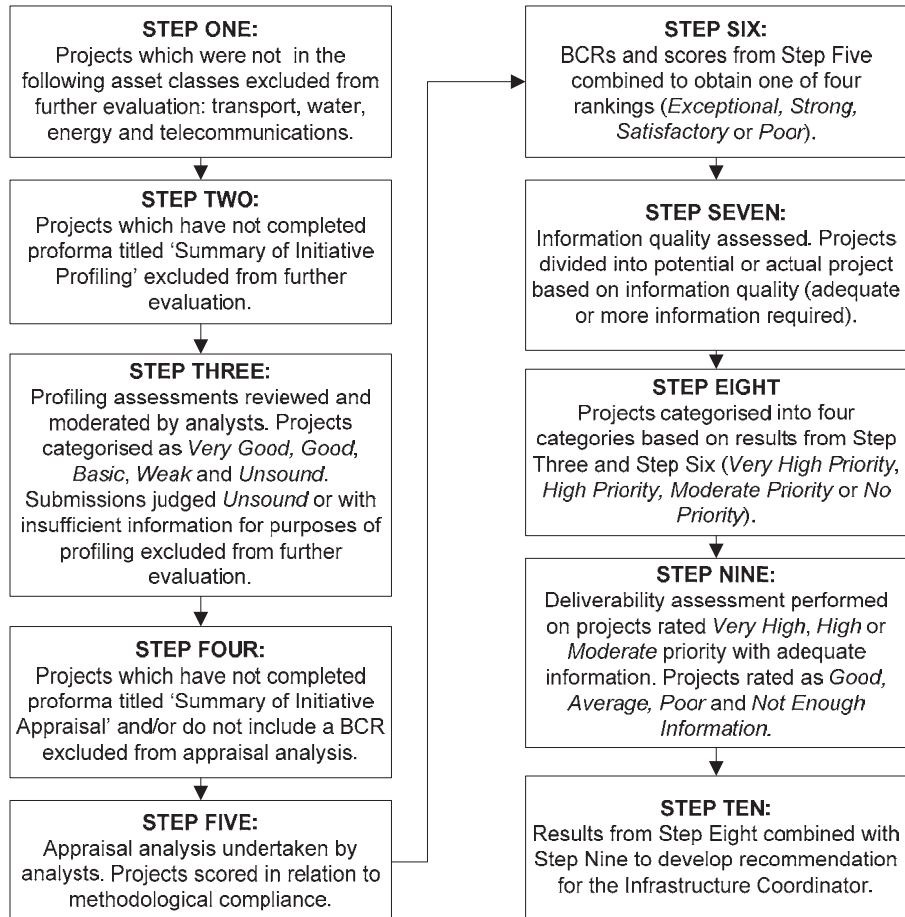
<sup>95</sup> *ibid.*, p. 5.

<sup>96</sup> See paragraph 1.1.7 of the Evaluation Plan.

the merit matrix) determined on the basis of a combination of both the profiling and appraisal assessments.

**Figure 3.2**

**Process for evaluation as outlined in the Evaluation Plan for the Interim Priority List**



Source: ANAO analysis of Infrastructure Australia data.

**3.15** In May 2010, the Office of the Infrastructure Coordinator advised ANAO that:

While [the] Infrastructure Australia [Council] did not consider a detailed evaluation plan, it had been advised at meetings in August and October 2008 of the architecture of the evaluation methodology.

## Evaluation teams and responsibilities

**3.16** Under the Evaluation Plan, the first stage of the prioritisation evaluation process involved the Office of the Infrastructure Coordinator convening a Prioritisation Evaluation Committee. The role of the Prioritisation Evaluation Committee was to make recommendations to the Infrastructure Coordinator on those initiatives that should be included in the Interim Priority List. The Prioritisation Evaluation Committee comprised three employees from the Office of the Infrastructure Coordinator, and was chaired by the Executive Director, Infrastructure Planning.

**3.17** Two advisory teams—a Profiling Advisory Team and an Appraisal Advisory Team—were established to provide advice to the Prioritisation Evaluation Committee in relation to profiling of submissions against Infrastructure Australia’s strategic priorities and the BCR appraisal of candidate initiatives.

**3.18** The Prioritisation Evaluation Committee was also assisted by external advisers selected from the Office of the Infrastructure Coordinator panel. Their role was to evaluate all submissions and prepare factual reports for the Prioritisation Evaluation Committee’s consideration. Advisers were also to complete conflict of interest declarations and were not permitted to assess or have access to any initiatives contained in the submissions around which a conflict of interest had been disclosed.

## Submission processes

**3.19** In order to develop the best possible list of projects, and to ensure equitable treatment of proponents, it was important that all proponents had adequate opportunity to submit information to Infrastructure Australia in support of their application. In this context, the Evaluation Plan on the Interim Priority List emphasised that the evaluation would be undertaken in accordance with the principle of fairness, with all submissions and proposed initiatives to be treated equally and fairly and evaluated strictly in accordance with the Plan.

**3.20** As outlined in Figure 3.3, there were two major information requests in relation to the preparation of the Interim Priority List. These were:

- a request from the Minister for Infrastructure, Transport, Regional Development and Local Government and the Chair of the Infrastructure Australia Council on 31 August 2008, calling for public

input to inform Infrastructure Australia's three immediate tasks of conducting the National Infrastructure Audit, producing the Infrastructure Priority List and developing nationally consistent guidelines for Public Private Partnerships by 15 October 2008<sup>97</sup>; and

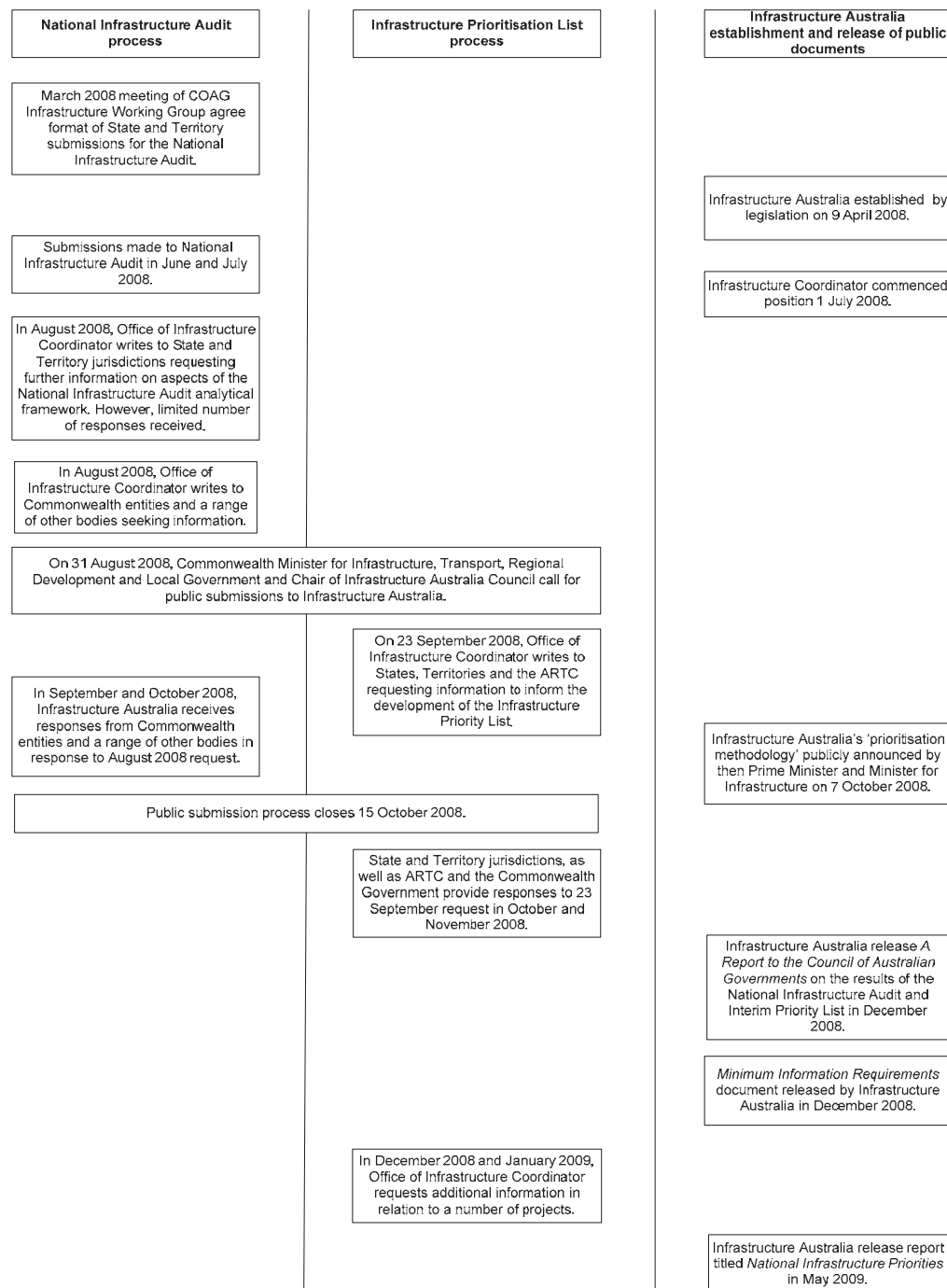
- 23 September 2008 letters to States, Territories and the ARTC, in line with the Prioritisation Methodology, by 31 October 2008.

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<sup>97</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), and Sir Rod Eddington (Chair of Infrastructure Australia), *Infrastructure Australia calls for Public Submissions*, Joint Media Statement, 31 August 2008.

**Figure 3.3**

## National Infrastructure Audit and Infrastructure Priority List timeline



Source: ANAO analysis of Office of the Infrastructure Coordinator data.

ANAO Audit Report No.2 2010–11  
Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List

**3.21** Although both requests for information informed the development of the Interim Priority List, the information requested by Infrastructure Australia was different. Prior to the September 2008 request to States, Territories and the ARTC, Infrastructure Australia had already received a range of information from these bodies in relation to the National Infrastructure Audit. Infrastructure Australia has noted that the information requested in relation to the National Infrastructure Audit was outside its control (as the call predated its inception).<sup>98</sup>

**3.22** The September 2008 request for information related primarily to the development of the Infrastructure Priority List, but also connected the request with the National Infrastructure Audit process. In September 2008, Infrastructure Australia had also developed a revised Prioritisation Methodology. The Office of the Infrastructure Coordinator requested that the States, Territories and ARTC provide information that was in line with this revised methodology.

**3.23** By way of comparison, the information request for the ‘public’ submission process was quite broad. Proponents were asked to provide input to inform a range of tasks, including the development of the Priority List, the conduct of the National Infrastructure Audit and the development of Public Private Partnership Guidelines. Infrastructure Australia publicly released two discussion papers (‘Australia’s Future Infrastructure Requirements’ and ‘Public Private Partnerships’) and a Submissions Guide, on 1 September 2008, to assist those proposing to make submissions. Given the broader scope of the information request from Infrastructure Australia, input from proponents in this process was understandably more varied than the input provided by the States, Territories and the ARTC.

**3.24** In addition, the guidance material released on 1 September 2008 to assist those making submissions in the public submissions process did not contain reference to the revised Prioritisation Methodology. The revised Prioritisation Methodology was released by Infrastructure Australia on its website on 26 September 2008, 19 days before the public submission process closed. It was publicly announced by the then Prime Minister and the Minister

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<sup>98</sup> ANAO Audit Report No.29 2008–09, *Delivery of Projects on the AusLink National Network*, Canberra, 23 April 2009, p. 220.

for Infrastructure, Transport, Regional Development and Local Government on 7 October 2008. Consequently, whilst the Evaluation Plan for the Interim Priority List emphasised the importance of completing each step of the Prioritisation Methodology process, most non-State and Territory Government submissions did not reflect the revised Prioritisation Methodology in their submissions.

**3.25** In May 2010, the Office of the Infrastructure Coordinator advised ANAO that it would have been desirable for the methodology to have been publicly available for a longer period but the demands on the Office at the time and the limited resources available meant it was not practical to have released the material any earlier. The Office of the Infrastructure Coordinator further advised ANAO that, in its view, the public's ability to submit proposals for the Priority List had not been constrained by the approach adopted. More specifically:

The public had the ability to choose: on what to provide input; how much detail to provide in their submissions; and on what basis it was submitted. ...Some private proponents did use the templates and methodology. In any event, there is a practical distinction between the submissions from jurisdictions and members of the public. This distinction reflects the fact that:

- the jurisdictions own many of the principal infrastructure networks, and therefore can decide what happens to those networks (whereas members of the public can only make suggestions as to what might happen to those networks);
- the information and resources required to make the well-documented submissions were unlikely to be available to members of the public (in other words, only infrastructure owners/managers were likely to have the detailed information on asset utilisation, prospective demand and the like necessary to document their submissions). The alternative would have been to develop the Infrastructure Priority List based on submissions that were limited in their content; and
- without some form of jurisdictional support, privately proposed projects could not proceed.

## **Registration of submissions**

**3.26** The Evaluation Plan required a Submissions Registration Team to be established to manage the control of submission documentation from receipt and throughout the period of review, critique and assessment. In addition, a

Document Control Plan was prepared which contained the methodology for registration of all submissions.

**3.27** However, in the course of this performance audit, ANAO identified some administrative issues with the control of submissions documentation. This included questions about the number and identity of submissions received, the retention of the original of each submission and a practice of maintaining multiple copies of some submissions, some of which differed in content. In these respects, in May 2010, the Office of the Infrastructure Coordinator advised ANAO that:

Consistent with the ANAO's findings, the Infrastructure Coordinator acknowledges that there were some instances when the Document Control Plan was not followed during the processing of nearly 600 submissions. In large measure, the reasons for the departures from the Document Control Plan are those set out at paragraph 3.2 above.

The Infrastructure Coordinator believes that the Document Control Plan should have limited any margin for error in documenting the submissions received. As such, the Office of the Infrastructure Coordinator established improved measures for managing the receipt and filing of documents, which it deployed for the 2009 submissions process... The Infrastructure Coordinator is confident that issues relating to the control of documents throughout the submissions process have been significantly improved. For example, original submissions are now kept as a single hard copy and soft copy. The Office of the Infrastructure Coordinator will continue to focus on means of improving document control. In future, where there is a need to create multiple copies of submissions, processes will ensure that a 'clean master copy' is maintained.

Steps have also been taken to improve the database of submissions. Each submission is given a unique number, and, where a submission incorporates multiple proposals, each individual proposal has a unique sub-number. In addition, the database includes additional fields to assist staff in retrieving information on proposals. A specific field enables cross-references between submissions to be tracked. Entries to the database are managed by a single person, thus improving database management and control.

Documents and lists prepared by the Office of the Infrastructure Coordinator are being more thoroughly examined to ensure project lists are complete, including attachments, to minimise the risk of projects being omitted from relevant lists.

**3.28** Email messages created using Australian Government systems are Commonwealth records and must be managed in accordance with the *Archives Act 1983*.<sup>99</sup> The National Archives recommends that if an email supports the ongoing business of the agency it should be placed in the agency's records management system (either electronic or paper), and its retention and destruction can then be managed according to the requirements detailed in a disposal authority or in the agency's Normal Administrative Practice policy. Emails were an important method of communication between staff in the Office of the Infrastructure Coordinator and State and Territory jurisdictions, between the Office of the Infrastructure Coordinator and the Infrastructure Australia Council as well as within the Office itself during the conduct of the National Infrastructure Audit and formulation of the Infrastructure Priority Lists. As such, appropriate management of these email records was important including, where necessary, by placing them in the Office of the Infrastructure Coordinator's records management system.

**3.29** The Office of the Infrastructure Coordinator uses DITRDG's information technology services, including its intranet and email system. Consequently, emails created by staff within the Office of the Infrastructure Coordinator on the Department's system constitute Commonwealth records. However, DITRDG informed ANAO in May 2009 that ten secondees<sup>100</sup> within the Office of the Infrastructure Coordinator did not hold email accounts with the Department. As such, their emails do not constitute Commonwealth records. The period of time for which these secondees worked for the Office ranged from two months to a year. ANAO also notes that in some instances, secondees who did have departmental email accounts used their State or Territory government address for Office of the Infrastructure Coordinator material. This practice reduces the Office of the Infrastructure Coordinator's ability to keep an accurate and complete record of its activities during this important period. It also brings with it increased risks to the confidentiality of Infrastructure Australia's assessment and prioritisation activities.

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<sup>99</sup> <<http://www.naa.gov.au/records-management/systems/email/index.aspx>>

<sup>100</sup> This comprised nine State and Territory government secondees as well as one private sector seconded.

**3.30** Further, the Office of the Infrastructure Coordinator did not consistently maintain records of correspondence and discussions with proponents. In this respect, in May 2010 the Office of the Infrastructure Coordinator advised ANAO that:

The Infrastructure Coordinator is working to improve records management practices within the Office of the Infrastructure Coordinator. More focused administrative support from the Department of Infrastructure, Transport, Regional Development and Local Government (for example, in the area of the TRIM records system) has assisted this Office's efforts.

In relation to record keeping, the Office of the Infrastructure Coordinator has taken steps to prepare more detailed Minutes from Project Evaluation Committee meetings. This includes an overview of meeting discussions and details of decisions made by the Committee, which are now recorded in the Minutes.

In addition, records of correspondence with proponents are now kept in the Office of the Infrastructure Coordinator's electronic filing system.

It is intended to consolidate relevant emails onto the Office of the Infrastructure Coordinator's electronic files at the conclusion of the current assessment process.

### **Closing date for submissions and clarification**

**3.31** As noted, public submissions were requested by 15 October 2008 and submissions from the States, Territories and the ARTC by 31 October 2008.

**3.32** The Evaluation Plan stated that the Prioritisation Evaluation Committee could, at its absolute discretion, seek clarification of any candidate initiative or the assessment of any initiative where the provision of any such further information might assist the Prioritisation Evaluation Committee in the finalisation of the Interim Priority List. The Evaluation Plan also permitted clarification to occur where the advisers considered that there had been unintentional errors of form in a submission. In respect to opportunities for submitters to vary or revise their submissions, the Evaluation Plan stated that:

Clarification is permitted throughout Stage 2 [*Screening for Compliance and Further Evaluation*]. Any additional information submitted by a Submitter will need to be assessed to determine whether it is truly a clarification of submitted information, or whether it effectively amounts to the submission of late material that seeks to vary the existing Submission.

Submitters will be informed that the request for clarification is not an opportunity to materially re-visit or revise their Submission.

**3.33** The planned approach of having a clear, firm and consistent submission closing date and providing an opportunity to clarify submissions where necessary but not permitting proponents to add to or revise their submission was premised on the view that the process used by the Office of the Infrastructure Coordinator was:

not radically innovative in substance. The fundamental elements have long been central to good infrastructure policymaking. In short, all proponents should already have been going through the various analytical steps in the course of normal decision-making.<sup>101</sup>

**3.34** However, at least three State/Territory Government submissions were received late.<sup>102</sup> In addition, the Office of the Infrastructure Coordinator found that many of the State and Territory submissions:

did not provide adequate information to enable assessment against the audit and prioritisation frameworks. Jurisdictions were then asked to revise their submissions in line with the frameworks and Prioritisation Methodology.<sup>103</sup>

**3.35** The circumstances of late submissions and submissions from States and Territories not providing the requested information left the Office of the Infrastructure Coordinator in a difficult situation. On the one hand, accepting late submissions and allowing States and Territories to add to and/or revise their submissions departed from the documented evaluation principle of:

Fairness – All Submissions and proposed Initiatives shall be treated equally and fairly, and shall be evaluated strictly in accordance with this Plan.<sup>104</sup>

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<sup>101</sup> ANAO Audit Report No.29 2008–09, *Delivery of Projects on the AusLink National Network*, Canberra, 23 April 2009, p. 220.

<sup>102</sup> These were the Northern Territory, the Australian Capital Territory and the Western Australian submissions. In June 2010, the Chair of the Infrastructure Australia Council informed ANAO that the submissions from the Western Australian Government were late due to the need for the newly elected Government to review its priorities.

<sup>103</sup> Infrastructure Australia, *Report on the Evaluation of Submissions for Infrastructure Australia's Interim Infrastructure Priority List*, 1 December 2008.

<sup>104</sup> The other evaluation principles were auditability ('All reviews, critiques and decisions involved in the evaluation are to be fully traceable and auditable'), information security ('All Submissions shall be classed as commercially sensitive and shall be handled and protected in accordance with this Plan and Infrastructure Australia's Document Control Plan') and confidentiality ('All involved individuals, including advisors and the Prioritisation Evaluation Committee, are to be fully accountable for their actions and shall avoid all situations, which would be or could be seen to be involving Infrastructure Australia in any conflicts of interest. All involved individuals will execute Deeds of Confidentiality and Conflict of Interest Declarations').

**3.36** On the other hand, there was a risk that assessing only those submissions received in full by the due date would not form the basis of a significantly robust Interim Priority List which could then be used to develop the Final Priority List. This latter concern was seen as more important such that the Office of the Infrastructure Coordinator:

- assessed at least three submissions from a State/Territory received after the closing date together with a number of submissions made to the public submission process<sup>105</sup> which were received after the closing date;<sup>106</sup> and
- allowed a number of States, Territories and submitters to the public submission process to provide supplementary information in relation to a number of projects, which was then assessed.

**3.37** For some projects, the approach taken permitted the proponent to make significant changes to the scope and/or estimated cost of delivering candidate projects. A number of projects also changed the submitted BCR prior to the release of the Interim Priority List. This was significant as, during the course of the assessment of submissions, a decision had been made by the Office of the Infrastructure Coordinator to only focus on initiatives with a submitted BCR of above 1.5.<sup>107</sup>

**3.38** In relation to the acceptance of late submissions, the Office of the Infrastructure Coordinator advised ANAO in April and May 2010 that:

When late submissions were received, Infrastructure Australia had a choice whether or not to accept the submission. Infrastructure Australia's interest in encouraging a broad range of well-developed submissions led the

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<sup>105</sup> For example, Brisbane City Council provided information as part of the public submission process dated 24 October 2008 (a summary of the submission) and 10 November 2008 (the entire submission), which was assessed by the Office of the Infrastructure Coordinator in the development of the Interim Priority List. Worley Parsons also provided a submission to the public submission process dated 18 September 2008, and a more comprehensive submission to the public submission process dated 31 October 2008. This later submission was also assessed by the Office of the Infrastructure Coordinator in the development of the Interim Priority List.

<sup>106</sup> In this context, the Report on the Evaluation of Submissions for Infrastructure Australia's Interim Priority List stated, in the context of the appraisal evaluation conducted by Infrastructure Australia that: 'However, four experts were brought back to the Office of the Infrastructure Coordinator to assess a number of initiatives which were either late or for which updated information was provided.'

<sup>107</sup> See further at paragraph 4.14.

Infrastructure Coordinator to the view that it was better to accept late submissions than not. Indeed, in some cases, a decision not to accept late submissions might have placed a party at a disadvantage. For example, additional time was granted to the Western Australian Government to lodge a submission. This acknowledged the reality that there had been a change of Government during the period of the Audit, that is, when other jurisdictions were preparing their detailed project submissions.

**3.39** In respect to the receipt of new information or changes to information already submitted, in June 2010 the Chair of the Council informed ANAO that:

We were looking to provide sound advice to governments about the key infrastructure priorities facing the country. As a result, Infrastructure Australia was open to receiving new information on project initiatives. Whilst this may or may not be appropriate in the context of a tender process, it is entirely appropriate given Infrastructure Australia's role in providing the best possible advice on infrastructure matters.

## 4. The Interim Priority List

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*This chapter examines the process by which the Interim Priority List of 94 projects, published in December 2008, was developed.*

### Background

**4.1** The first Infrastructure Priority List was originally to be completed, for COAG consideration, by March 2009.<sup>108</sup> However, following the onset of the global financial crisis, COAG brought the completion of the first Infrastructure Priority List forward to December 2008, to be due at the same time as the National Infrastructure Audit.<sup>109</sup> In bringing the due date forward, COAG noted that the Audit and List were to be provided in the form of an 'interim' report. The original COAG deadline of March 2009 was retained for the completion of a 'final' Priority List.

**4.2** As outlined at paragraph 3.8, Infrastructure Australia's Prioritisation Methodology involved three phases:

- *profiling*, being an analysis of how well the project would meet Infrastructure Australia's strategic priorities;
- *appraisal*, measured principally through a project's BCR; and
- *selection*, in which the outputs of the preceding profiling and appraisal phases were to be used to create a priority list of initiatives to enable informed decision-making for the allocation of funding.

### Initiatives shortlisted for detailed assessment

**4.3** The Evaluation Plan (see paragraph 3.13) had outlined that the second stage of evaluation (after formation of the Prioritisation Evaluation Committee) was to involve the advisers screening submissions to identify those that:

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<sup>108</sup> COAG Meeting Communique, 26 March 2008.

<sup>109</sup> COAG Meeting Communique, 2 October 2008.

- were relevant to four asset classes (transport, water, energy and telecommunications—excluding initiatives that could be delivered via the implementation of the National Broadband Network)<sup>110</sup>; and then
- had failed to comply with minimum content and format of submission information requirements outlined in the Prioritisation Methodology.

**4.4** Most of the proposals submitted to Infrastructure Australia were focused on infrastructure issues within a particular jurisdiction (State, Territory or regional/local government area) with very few being national in their scope. In addition, most of the initiatives related to transport infrastructure, with relatively few in the areas of energy, water and telecommunications infrastructure.

**4.5** At its 12 November 2008 meeting, the Infrastructure Council was informed that 112 projects had been shortlisted for prioritisation against the published Prioritisation Methodology. The Infrastructure Coordinator advised ANAO in May 2010 that this list was to provide early advice to the Infrastructure Australia Council on the broad range of proposals that was being assessed. Subsequent to the 12 November 2008 Council meeting, the list of projects shortlisted for detailed evaluation was reduced to 94 projects. The Office of the Infrastructure Coordinator advised ANAO in May 2010 that the reduction from 112 projects in the November list to 94 projects in the 1 December list reflected a closer assessment of the proposals, including the extent to which the profiling template had been completed for various projects proposals, and the potential strategic significance of a project.

**4.6** Under the Evaluation Plan, those submissions that were not within the four asset classes were to be excluded from further evaluation (clause 4.1.2 of the Evaluation Plan refers). However, of the 94 shortlisted proposals, five were not within the four asset classes, namely:

- four Indigenous/housing initiatives (the Aboriginal Community Water Supply and Sewerage capital works program submitted by the New South Wales Government, the Northern Territory Government's Indigenous Essential Services Requirements initiative, the Western

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<sup>110</sup> At its 1 December 2008 meeting, the Infrastructure Council had agreed that 'the national broadband initiative was a genuine national building project'.

Australia Government's Pilbara Housing and Indigenous Infrastructure initiative and the Queensland Government's Remote Road and Indigenous Employment Program initiative); and

- the Australian Capital Territory Government's Health Capital Projects initiative.

4.7 The Evaluation Report did not document why the eligibility requirement had been waived for those initiatives.

4.8 Also to be excluded from further evaluation were submissions that had not completed, at the minimum, Appendix C: Profiling in the Prioritisation Methodology. In this respect, the Council had been advised by the Office of the Infrastructure Coordinator that the shortlisted submissions had completed, 'at the minimum, the profiling proforma'. However, included in the list of 94 projects advised to the Council were a number of projects that had not completed a summary of initiative profiling, including four Australian Capital Territory Government projects (the Very Fast Train project, the Southern Energy Supply project, the Hoskinstown to Fyshwick Looping project and Health Capital Projects) and the Worley Parsons Pilbara Power submission. Again, the Evaluation Report did not document why this eligibility requirement had been waived. In this regard, the Office of the Infrastructure Coordinator advised ANAO in May 2010 that:

In a limited number of cases, judgements were made to assess some proposals notwithstanding that profiling templates had not been completed for the specific proposals. For example:

- the ACT Government's submission into a Very High Speed Train – this was assessed on the basis that a scoping study had been undertaken in 2001, and having regard to the project's potentially transformative nature; and
- the ACT energy projects (southern supply and Hoskinstown – Fyshwick looping) were potentially significant as a means of ensuring security of energy supply to the national capital, and, in the case of the Fyshwick project, there was an indication from the ACT Government that a detailed feasibility study would be available in December 2008.

Whilst these proposals were assessed by the Office of the Infrastructure Coordinator, none of the projects were identified as having a 'medium', 'high' or 'very high' priority in the assessment material presented for [the] Infrastructure Australia [Council's] consideration on 1 December 2008.

## Profiling assessment

**4.9** The purpose of the profiling assessment was to provide assurance that initiatives met Infrastructure Australia's seven strategic priorities. These were:

- expand Australia's productive capacity;
- increase Australia's productivity;
- diversify Australia's economic capabilities;
- build on Australia's global competitive advantages;
- develop our cities and/or regions;
- reduce greenhouse emissions; and
- improve social equity and quality of life in our cities and our regions.

**4.10** Profiling was undertaken as follows:

- proponents self-assessed their initiative(s) against each of Infrastructure Australia's strategic priorities;
- the self-assessments were, in turn, reviewed by Office of the Infrastructure Coordinator analysts against internal guidelines for the interpretation of each strategic priority, and the self-assessed profiles were marked up or down depending on the analyst's assessment;
- the analysts' assessments were moderated by another analyst, both to promote consistency of assessment and to apply scrutiny to the self-assessed profile with the objective of adding robustness to the project assessments; and
- the moderated profiles were considered by the Prioritisation Evaluation Committee.

## Profiling outcomes

**4.11** Profiling assessments were reviewed and moderated by the Office of the Infrastructure Coordinator with the objective of promoting consistency of ratings across initiatives as well as to ensure adequate regard had been had for the impact of major urban road initiatives on greenhouse gas emissions and the 'transformation of cities' priority. The results were endorsed by the Prioritisation Evaluation Committee with a presentation by the Office of the Infrastructure Coordinator to the Council at its 1 December 2008 meeting

outlining that 69 projects had been profiled (that is, those projects with an assessment outcome in Table 4.1 of *Excellent*, *Strong*, *Basic* or *Weak*).

**Table 4.1**

**Profiling assessment outcomes: December 2008**

Moderated assessment outcome	Underlying profiling assessment rating	Number of projects in category
Excellent	Very Good	10 (11%)
Strong	Good	15 (16%)
Basic	Basic	41 (43%)
Weak	Weak	3 (3%)
Unsound	Unsound	Nil
Inadequate Information	Inadequate Information	10 (11%)
No assessment	No assessment	15 (16%)
<b>Total</b>		<b>94</b>

Source: ANAO analysis of Office of the Infrastructure Coordinator data.

## Economic appraisal assessment

**4.12** The purpose of the economic appraisal assessment phase was to critique the BCRs submitted with candidate initiatives so as to identify whether the proponent's economic analysis could be relied upon in developing the Interim Priority List. In April 2010, the Office of the Infrastructure Coordinator summarised its approach in advice to ANAO as follows:

The proponents' economic appraisals were reviewed by a team of consultants with expertise in economic appraisal of projects. Appraisals were reviewed against 22 criteria, and the reviewer's comments and rating were then moderated by Infrastructure Australia's lead economic appraisal consultant. The criteria enabled Infrastructure Australia to look behind the headline benefit-cost ratio, and thus establish whether the appraisal was based on solid inputs or not. At the very least, it enabled Infrastructure Australia to flag areas of doubt in relation to the economic assessment of proposals.

**4.13** Of the 94 initiatives that were shortlisted for detailed evaluation, 27 (29 per cent) did not at that time have a BCR. The 1 December 2008 Evaluation Report recorded these and other shortcomings in respect to the BCRs submitted by proponents as follows:

It became apparent to the six independent experts (on day one of their work) that, in addition to the variation in methodology, the state of readiness and

applicability of the economic Cost-Benefit Analysis (CBA) also differed greatly among submissions. For example:

- Incomplete or high level 'Strategic' or 'Rapid' economic appraisals were submitted, and it was clear that the proposer intended to submit more comprehensive and specific CBA evidence in the future, or
- CBAs were not specific to the initiative: either elements had simply been transferred from similar initiatives, or the BCR quoted was simply the BCR from different but similar initiatives, or
- Important pieces of information or analysis were missing from the CBA material submitted, or
- Economic CBAs had been prepared which were in effect financial analyses, treating financial revenues as benefits, which are not incorporated in economic CBAs, or
- Benefits relied on associated private sector investment to promote demand, where that investment was not part of the initiative and so speculative.

**4.14** Rather than exclude submissions exhibiting these shortcomings from further analysis, the approach taken was to record shortcomings in the information supplied, with the advisers to consider whether an economic cost-benefit analysis was the most applicable method of assessment and, if so, whether an assessment could be undertaken on the basis of the information that had been submitted. The Chair of the Infrastructure Australia Council has informed ANAO that this approach was taken so as to ensure that candidate nation building projects were provided with the maximum possible opportunity to be considered, rather than being excluded from consideration because the initial business case did not adequately demonstrate the benefits of the project. In respect to the analysis, the Evaluation Report recorded that:

After two days, the rate of progress was discussed between the experts and Infrastructure Australia staff, and the experts were asked to focus on initiatives with a reported BCR of above 1.5 in order to prioritise those likely to be candidates for the Infrastructure Priority List in the time available (therefore some initiatives with a BCR of below 1.5 were assessed before this administrative decision was taken – this information was retained).

...The experts assessed all initiatives with a BCR of above 1.5 in the two week period. However, four experts were brought back to Infrastructure Australia to assess a number of initiatives which were either late or for which updated information was provided.

**4.15** The approach taken to the economic appraisal was robust and comprehensive. Each initiative subject to the appraisal assessment was examined against 22 factors (see Table 4.2) so as to decide whether the BCR submitted by the proponent for the initiative could be relied upon, or required moderation.

**Table 4.2**

**Factors assessed in deciding whether an initiative's Benefit-Cost Ratio should be moderated**

Review/critique categories			
Robustness of demand forecast	Robustness of cost base	Key methodological questions	Values benchmarking
Has demand been modelled in a robust and 'bottom-up' manner?	Robustness of capital expenditure forecasts.	Inflation rate.	Value of time savings: business, non-business, freight; and vehicle operating costs.
Are the underpinning residential, employment and economic growth figures robust?	Robustness of operating expenditure forecasts.	Time period used.	Value of carbon emissions.
Achievability of the demand forecast?	Consequential costs.	Residual value.	Death/injury/crash costs, physical fitness and health impacts.
Sensitivity of BCR to demand.	Revenue treatment.	Start and end timing, and phasing.	Noise, particle emissions and other environmental pollutants. Noise impacts.
Is the base case realistic and fundable?	Construction cost inflation.	Benefits allocation.	
Does hourly patronage profile match conventional AM and PM peak flows?		Sensitivity analysis—risks? (Capital costs—Construction duration—Operating costs—Discount rate at 10%)	
		Other methodological issues?	

Source: ANAO analysis of Office of the Infrastructure Coordinator data.

**4.16** The Office of the Infrastructure Coordinator's records evidence that initiatives were critically examined against the 22 criteria so as to identify

whether the approach taken by the proponent supported the BCR that had been submitted or whether the BCR was either understated or overstated. Initially, an ordinal scale was used to record the result of the assessment for each initiative against the 22 criteria. This ordinal scale was then converted into a numerical scale, as outlined in Table 4.3.

**Table 4.3**

**Appraisal assessment scoring system**

Assessment	Score
Significantly understated	+2
Slightly understated	+1
Broadly neutral	0
Slightly overstated	-1
Significantly overstated	-2
Critically flawed	No score: a project with any critically flawed rating was to be directly rated overall as critically flawed.

Source: ANAO analysis of the Office of the Infrastructure Coordinator records.

**4.17** Using a predetermined methodology outlined in the Evaluation Plan, the individual scores against each of the criteria for each initiative were totalled and an overall moderation assessment allocated.<sup>111</sup> Initiatives were then ranked, using a rule-based combination of the BCR submitted by the proponent and the moderation assessment to rank projects into four categories of:

- *Exceptional* BCR—where the proponent submitted a BCR greater than 3.5 which the Office of the Infrastructure Coordinator assessment concluded was not significantly overstated;
- *Strong* BCR—where the proponent submitted a BCR above 1.5 but less than 3.5 with the BCRs at the lower end of this range having been assessed as being understated and the BCRs at the upper end of the

<sup>111</sup> The options were: significantly understated, significantly overstated, slightly understated, slightly overstated, broadly neutral, or critically flawed.

range having been assessed as significantly overstated or flawed (which is why they were not categorised as *Exceptional*);

- *Satisfactory* BCR—comprising BCRs submitted by the proponent between 1.5 and 2.5 (with the BCRs at the lower end of this range having been assessed as being significantly understated, and the BCRs at the upper end of the range having been assessed as significantly overstated or flawed (which is why they were not categorised as *Strong*)); and
- *Poor* BCR—the BCR submitted by the proponent was less than 1.5 and the Office of the Infrastructure Coordinator had concluded that the BCR was overstated.

**4.18** In addition, due to information limitations, the appraisal assessment did not include a review of certain non-monetised impacts or inter-generational impacts. In this respect, in May 2010, the Office of the Infrastructure Coordinator advised ANAO that:

Some assessment of claimed Wider Economic Benefits (WEBs) was undertaken. Often, the information supporting these benefits was quite limited and/or the methodology was not considered robust. As a result, in the main, the claimed WEBs were not included in Infrastructure Australia's appraisal assessments at the Interim Infrastructure Priority List stage.

**4.19** In addition, in a significant number of instances, the Office of the Infrastructure Coordinator concluded that the information provided by the proponent was insufficient<sup>112</sup> to allow an assessment to be made against one or more of the 22 criteria. The Evaluation Plan had proposed that a distinction be drawn between those initiatives for which adequate information was available and those for which more information was needed before an informed assessment could be completed. So as to provide a detailed indication of the

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<sup>112</sup> The Evaluation Report also outlined a further departure from the Evaluation Plan: 'Due to the quality of information provided and the time available, the experts were not asked, as originally envisaged in the Evaluation Plan, to:

- Identify and test credible 'highly beneficial' or 'highly detrimental' non-monetised impacts; or
- Identify significant equity or intergenerational impacts.

However, the experts did note whether Wider Economic Benefits (WEBs) were identified, and made an assessment of their validity.'

nature of any outstanding issues with each proposal, initiatives were categorised into one of five categories:

- *Satisfactory information provided*, such that (despite some areas of poor information) the general assessment was robust and an assessment could therefore be made;
- *Major doubts raised*, such that significant further information was required to support an assessment;
- *More information required*, which was similar to the *Major doubts raised* category except that, rather than questions being raised about the BCR methodology, the concern was that too little information had been provided;
- *Information incomplete or early stage*, such that no assessment was possible; and
- *Information not comparable*, which was the category applied in circumstances where the assessment had concluded that the economic analysis provided by the proponent was not an appropriate or 'fair' tool of assessment (for example, where financial revenues or indirect benefits, which are not usually counted in economic cost-benefit analysis, formed the principal source of the claimed project benefits).

**4.20** With one exception, the records held by the Office of the Infrastructure Coordinator supported the ranking of projects in terms of their economic appraisal. Specifically, the Evaluation Report included the New South Wales Regional Water Feasibility Studies initiative as a project with a *Strong* BCR but with *Major doubts raised* about the BCR. In particular, the Evaluation Report recorded the conclusion that the BCR was *critically flawed* but whereas another initiative in this same category (the Northbridge Link Rail Cutting) also recorded as being *critically flawed* was included in the merit matrix, the New South Wales Regional Water Feasibility Studies initiative did not progress any further in the evaluation.

## Selection

**4.21** The purpose of the selection phase was to use the outputs of the profiling and appraisal stages to create a priority list of initiatives to enable informed decision-making for the allocation of funding.<sup>113</sup> To achieve this, a merit matrix was structured using the profiling assessment categories and the results of the economic appraisal.

**4.22** Using a rule-based combination of the proponent's BCR (as moderated by the Office of the Infrastructure Coordinator appraisal) and the outcome of the profiling assessment, the Office of the Infrastructure Coordinator developed a merit matrix of 37 of the 94 projects shortlisted. The remaining 57 projects either had a BCR that was below the threshold of 1.5<sup>114</sup> or a profiling assessment had not been able to be completed. The results are summarised in Table 4.4 which outlines that, of the 37 projects, nine had been assessed as not having a good fit with the strategic priorities or as not delivering significant economic benefits and therefore (under the documented Evaluation Plan) should not be further considered as either priority or potential candidates for the Interim Priority List. Accordingly, based on the merit matrix results, the Prioritisation Evaluation Committee focused its consideration on the 28 projects that had been assessed as either a *High Priority* or a *Moderate Priority*.

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<sup>113</sup> Infrastructure Australia, *Outline of Infrastructure Australia's Prioritisation Methodology*, 24 September 2008, p. 5.

<sup>114</sup> In a small number of instances, initiatives with a BCR below 1.5 had been assessed prior to the decision having been taken to focus only on those initiatives with a BCR above 1.5. The initiatives with a BCR below 1.5 that had been assessed were included in the merit matrix.

**Table 4.4****Application of merit matrix to shortlisted projects: December 2008**

Overall ranking	Prioritisation Category	Merit Matrix	Number of Projects in Category
Priority candidates for further consideration	Very High Priority	Exceptional BCR and Very Good Profiling	No projects
	High Priority	Exceptional BCR and Good Profiling	4 projects (only 1 of which had sufficient information to support the BCR)
		Strong BCR and Very Good Profiling	3 projects (2 of which had sufficient information provided to support the BCR)
		Strong BCR and Good Profiling	4 projects (2 for private funding and the other 2 did not provide sufficient information to support the BCR)
Potential candidates	Moderate Priority	Exceptional BCR and Basic Profiling	3 projects (only 1 of which had sufficient information to support the BCR)
		Strong BCR and Basic Profiling	8 projects (only 2 of which had sufficient information to support the BCR)
		Satisfactory BCR and Very Good Profiling	2 projects (neither of which had sufficient information to support the BCR)
Not further considered	No Priority	Satisfactory BCR and Good Profiling	4 projects (none of which had sufficient information to support the BCR)
		All other combinations	9 projects (5 of which had insufficient information to support the BCR, another of which was for private funding)

Source: ANAO analysis of Office of the Infrastructure Coordinator data.

## Deliverability assessment of six projects

**4.23** In its 1 December 2008 *Report on the Evaluation of Submissions for Infrastructure Australia's Interim Infrastructure Priority List*, the Committee recommended to the Infrastructure Coordinator that six projects for which adequate information had been submitted be considered as priority initiatives for inclusion on the Interim Priority List. These six projects were those that were either a High Priority or Medium Priority and for which a robust BCR had been submitted supported by sufficient information.

**4.24** Drawing on information requested in Appendix F of the Prioritisation Methodology, the Office of the Infrastructure Coordinator assessed each of these six initiatives' readiness for delivery and the available funding sources (referred to as the deliverability assessment). The remaining 22 projects were not subject to a deliverability assessment as the Office of the Infrastructure Coordinator considered those initiatives were 'not well enough advanced'.

**4.25** The deliverability assessment involved an assessment against seven delivery risks (criteria) with four categories of deliverability established (*good deliverability, average deliverability, poor deliverability* and *insufficient information*). As outlined in Table 4.5, the assessment was that the state of readiness varied significantly across initiatives with some proponents having undertaken a detailed analysis of deliverability risks while others had undertaken little work in that area. The deliverability assessment also assisted to inform Infrastructure Australia's evaluation of whether an initiative was suitable for private sector funding or delivery as a Public Private Partnership.

**Table 4.5**

**Results of deliverability assessment: December 2008**

Criterion	F3 to Branxton Link (NSW)	Majura Parkway (ACT)	East-West Rail Tunnel (VIC)	Mornington Peninsula Connector (VIC)	Regional Rail Express Line (VIC)	Northern Connector (SA)
Does the initiative require Commonwealth funding to proceed?	Good	Average	Insufficient information	Insufficient information	Insufficient information	Insufficient information
What are the construction risks and what budgetary implications do they have?	Good	Insufficient information	Good	Good	Good	Poor
What are the consequential construction risks?	Good	Average	Good	Good	Good	Average
What are the financing risks where private finance is involved?	Not applicable	Good	Insufficient information	Insufficient information	Not applicable	Insufficient information
What are the local environmental risks not captured in the assessment?	Good	Insufficient information	Good	Good	Good	Poor
What are the social risks involved?	Good	Insufficient information	Good	Good	Good	Average
Is the proposed governance model robust?	Insufficient information	Good	Insufficient information	Insufficient information	Good	Poor

Source: ANAO analysis of Office of the Infrastructure Coordinator data.

## 22 projects recommended as potential candidates for the Interim Priority List

4.26 As noted in paragraph 4.24, there were 22 High Priority and Medium Priority projects that the Office of the Infrastructure Coordinator had assessed as not being sufficiently well advanced to be examined in terms of their deliverability risks. This comprised:

- eight *High Priority* projects, namely:
  - Eastern Busway (Queensland Government);
  - East-West Rail Corridor (ARTC);
  - Fully Controlled Motorways (Queensland Government);
  - Hunter Valley Rail Corridor (ARTC);
  - Oakajee Port and Common User Facilities (Western Australian Government);
  - Port of Darwin Container Expansion (Northern Territory Government);
  - North-East Connector Road (Victorian Government); and
  - Gawler Rail Line Re-sleeper and Electrification (South Australian Government); and
- 14 *Medium Priority* projects. These projects were:
  - Perth Airport Transport Links (Western Australian Government);
  - King Street Bridge (Holdfast Bay Council in South Australia);
  - Picton Road (Illawarra Development Council);
  - Northbridge Rail Cutting (Western Australian Government);
  - Green Triangle Road and Rail Freight Projects (Victorian Government);
  - Kingsford Smith Drive (Brisbane to Australia Trade Coast) project (Brisbane City Council);
  - Sir Don Bradman Drive to Airport (South Australian Government);

- Port of Brisbane Motorway (Queensland Government);
- Gold Coast Rapid Transit (Queensland Government);
- CBD Metro (New South Wales Government);
- North-South Rail Corridor (ARTC);
- Northern Sydney Freight Corridor (New South Wales Government);
- Bell Bay Port Expansion (Tasmanian Government); and
- Advanced Train Management System (ARTC).

### **Finalisation and publication of the Interim Priority List**

**4.27** To inform its 1 December 2008 meeting, members of the Infrastructure Australia Council were provided with papers outlining how the Office of the Infrastructure Coordinator had arrived at the:

- six priority candidates that had been subject to a deliverability assessment;
- eight priority candidates that were not sufficiently well advanced to be examined in terms of their deliverability risks; and
- 14 remaining High Priority and Medium Priority projects that did not, at that time, have sufficient information to support their nomination as priority candidates.

**4.28** More specifically, the papers provided to the Council at its 1 December 2008 meeting comprised:

- a listing of 94 projects that had been shortlisted for assessment;
- an assessment of each project's alignment with the profiling criteria set out in the Prioritisation Methodology;
- an assessment of the economic appraisal information for various projects;
- a 'Draft Interim Priority Matrix' with a consolidated profiling/economic appraisal assessment for projects judged to have a BCR potentially above 1.5. A total of 37 projects were shown, including 28 in the matrix cells that the Evaluation Plan had indicated would rate as having a moderate, high or very high priority;

- a draft Interim Priority List comprising the 28 projects identified in the matrix; and
- assessments against the Building Australia Fund interim evaluation criteria of nine projects that had been rated as having a robust cost-benefit analysis.

**4.29** The Minutes of the Council meeting on 1 December 2008 record that questions about national projects, BCR rates and detailed analytical processes were discussed and that details of the 80 projects assessed<sup>115</sup> would be provided to the Council members.<sup>116</sup> The Minutes do not record that any decision had been taken about whether to endorse the recommendations from the Office of the Infrastructure Coordinator. In this regard, the Office of the Infrastructure Coordinator advised ANAO in April 2010 that:

These papers [referred to at paragraph 4.28] set out the advice from the Office of the Infrastructure Coordinator to the Infrastructure Coordinator and, in turn, to [the] Infrastructure Australia [Council] concerning the formation of an Interim Infrastructure Priority List.

It is important to understand that both the Office of the Infrastructure Coordinator and the Infrastructure Coordinator provided support and advice to [the] Infrastructure Australia [Council]. However, decisions in relation to the Interim (and Final) Infrastructure Priority List were taken by [the] Infrastructure Australia [Council].

[The] Infrastructure Australia [Council] received a presentation on the assessment of proposals at its meeting on 1 December 2008. The Minutes of the meeting record that Infrastructure Australia agreed seven themes that it would build around priority projects, and, amongst other things, that it discussed the assessment of BCRs and details of the analytical process for assessing projects. [The] Infrastructure Australia [Council] was disappointed that additional projects had not made the list, but also reiterated the importance of rigorous project assessment. It agreed to advise the Minister of the outcomes of the assessment process.

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<sup>115</sup> The Minutes referred to 80 projects as having been assessed.

<sup>116</sup> The Minutes of the next Council meeting, on 12 December 2008, record that: '[One Council Member] gave a positive report on the Infrastructure Australia assessment and prioritisation process noting lack of detail from proponents. [This Council Member] indicated he had visited the Infrastructure Australia offices and spent some time reviewing the documentation.'

**4.30** On 5 December 2008, the Chair of the Infrastructure Australia Council wrote to the Minister for Infrastructure, Transport, Regional Development and Local Government providing him with the National Infrastructure Audit and also outlined the proposed approach to finalising the Interim Priority List. This correspondence provided the Minister with the list of '94 projects that have been evaluated by Infrastructure Australia', and advised the Minister that:

within this list of projects, the evaluation to date, which is subject to further consideration by the Infrastructure Australia Council, has identified two classes of projects that may be suitable for funding from the Building Australia Fund. There are 28 projects in these two classes.

**4.31** In respect to these projects, the Minister was further advised that:

- the first class of six projects comprised 'priority projects' that addressed one or more of the seven themes, 'and where the project's initial economic appraisal and alignment with key strategic priorities is generally well documented. Subject to further engagement with project proponents over the next month or so (for example, clarifying aspects of the economic appraisal and project timetable), our expectation is that these projects could proceed to be recommended for funding by Governments, including from the Building Australia Fund'; and
- a second group of 22 'potential projects' that included initiatives that also addressed one or more of the strategic themes but that some aspect of a project's economic benefits or alignment with strategic priorities remained sufficiently in question such that they could not, at that time, be recommended for immediate inclusion in such a program. A number of these projects were said to be likely to progress to the point where they could be supported with funding from the Building Australia Fund.

**4.32** The Council next met on 12 December 2008. The Minutes did not record that a decision had been taken to set aside the Office of the Infrastructure Coordinator recommendations. Rather, the only record that this occurred was found in a draft Evaluation Plan<sup>117</sup> for the development of the Final Priority

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<sup>117</sup> The Office of the Infrastructure Coordinator advised ANAO in May 2010 that the draft Evaluation Plan for the Final Priority List was not finalised.

List prepared by the Office of the Infrastructure Coordinator in January 2009. This document recorded that:

Using the Infrastructure Australia – Evaluation Plan for initiatives submitted for inclusion in the Interim Priority List, 94 public and jurisdiction initiatives were evaluated with the outcomes of the evaluation reported as recommendations in a paper to the Infrastructure Australia Council meeting of the 12<sup>th</sup> December 2008. Key recommendations from the evaluation of the Interim Priority List included that a list of 28 initiatives be further considered by seeking additional information to support and/or confirm appraisal and delivery. At the 12<sup>th</sup> of December meeting, the Infrastructure Australia Council requested that the Office of the Infrastructure Coordinator seek additional information for all 94 projects that were able to be evaluated and to report back to the Infrastructure Australia Council in January 2009 with the finalised Infrastructure Priority List.

**4.33** Accordingly, the Interim Priority List publicly released on 19 December 2008 within the document titled *A Report to the Council of Australian Governments* was the list of 94 projects shortlisted for detailed appraisal. As such, the Interim Priority List included 34 projects<sup>118</sup> (36 per cent) that could have been included on the merit matrix but 60 projects (64 per cent) that did not meet the minimum requirements for inclusion on the merit matrix. Those 60 projects comprised:

- 28 projects<sup>119</sup> (30 per cent) where the proposal did not meet the minimum profiling assessment of *Basic* required for the initiative to be included in the merit matrix as worthy of consideration for the Interim Priority List. In 25 of these 28 instances, the initiative also did not satisfy the requirement for an economic appraisal of *Satisfactory* or better; and

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<sup>118</sup> The difference of six initiatives between this number and the 28 recommended by Infrastructure Australia as worthy of consideration for inclusion on the Interim Priority List related to six of the nine *No Priority* projects in Table 4.4 that had a *Basic* profiling assessment and a *Satisfactory* economic appraisal.

<sup>119</sup> This comprised: 15 projects where a profiling assessment had not been completed; 10 projects where insufficient information had been submitted for a profiling assessment to be undertaken; and three projects where the profiling assessment was that the initiative was *Weak*. The minimum profiling assessment to be ranked in the merit matrix was *Basic*.

- a further 32 projects (34 per cent)<sup>120</sup> where, whilst the profiling assessment was *Basic* or better, an economic appraisal was not undertaken either because the proponent did not submit a BCR for evaluation, or the BCR was below the minimum of 1.5 (see paragraph 3.37).

**4.34** As indicated at paragraph 4.27, a key recommendation from the Office of the Infrastructure Coordinator's evaluation of the Interim Priority List was that a list of 28 projects be included on the Interim Priority List. These 28 projects were a subset of the 34 mentioned at paragraph 4.33 that the Office of the Infrastructure Coordinator had concluded could have been included on the merit matrix. In this context, the Office of the Infrastructure Coordinator advised ANAO in May 2010 that:

In practical terms, [the] Infrastructure Australia [Council] decided against focussing only on the 28 projects in the merit matrix. Rather, whilst the 28 projects looked most promising, [the] Infrastructure Australia [Council] wanted to enable proponents of all 94 projects (whether or not their projects were in the merit matrix) to have an opportunity to contribute additional information. Even with the 28 projects in the merit matrix, [the] Infrastructure Australia [Council] indicated that it needed to engage further with the proponents.

**4.35** This meant that the Interim Priority List included projects that had not been assessed by the Office of the Infrastructure Coordinator as having passed through each of the published filters (see in this respect, for example, paragraph 3.7 and Figure 3.1). Specifically, some of the projects on the Interim Priority List had not at that time demonstrated their strategic merit and fit, and others had not performed well in terms of their economic appraisal.

**4.36** Against this background, in June 2010 the Chair of the Infrastructure Australia Council informed ANAO that the decisions taken by the Council were reached by consensus, were unanimous and had the full support of the Infrastructure Coordinator. ANAO was further informed that:

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<sup>120</sup> Including those instances where a profiling assessment was also not completed or the profile was assessed as *Weak*, there were 57 initiatives in total where, in respect to their economic appraisal alone, the project was below the standard required for inclusion on the merit matrix.

Featuring on the Interim Priority List was not intended to rule a project either 'in' or 'out' of the Final Priority List. The Interim Priority List was an interim update of possible priorities in light of available information and an interim assessment of that information. As a result, whether 94 or 28 projects were identified at that stage did not have a significant impact on the Final Priority List.

This is because the Final Priority List was developed on the basis of rules – rules which did not include a requirement to feature on the Interim Priority List.

**4.37** This approach of including all shortlisted projects on the Interim Priority List had a significant impact on which projects were included on the Final Priority List, and were subsequently announced by the Australian Government as being successful candidates for Commonwealth funding in the May 2009 Federal Budget. In particular:

- of the six priority projects that were sufficiently well advanced to be examined in terms of their deliverability risks, following the completion of the Final Priority List, three had (as of March 2010) been announced to receive Commonwealth funding. These were the F3 to Branxton Link in New South Wales,<sup>121</sup> the Regional Rail Express Line in Victoria<sup>122</sup> and the East-West Rail Tunnel also in Victoria.<sup>123</sup> The other three priority projects (Majura Parkway in the Australian Capital Territory, the Northern Connector in South Australia and the Mornington Peninsula Connector in Victoria) have not (as at May 2010) been announced to receive Commonwealth funding;
- five of the 22 projects proposed for inclusion on the Interim Priority List as potential candidates were successful in being announced for funding, namely:

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<sup>121</sup> Specifically, \$1,451 million over six years (including \$158.0 million in 2008–09 and \$162.0 million in 2013–14) towards the construction of 40 kilometres of dual carriageway for a project now referred to as the Hunter Expressway.

<sup>122</sup> Specifically, \$3,225 million over six years towards the separation of V/Line (regional) and metro rail services between West Werribee and Southern Cross Station via Sunshine.

<sup>123</sup> Specifically, \$40 million over two years from 2011–12 for preconstruction work towards a rail tunnel from Dynon to St Kilda Road.

- two projects that the Office of the Infrastructure Coordinator had concluded were worthy of consideration for private funding (being the Oakajee Port and Common Use Infrastructure initiative submitted by the Western Australian Government and the Port of Darwin Container Expansion initiative submitted by the Northern Territory Government) were instead announced as having had provision made for possible equity injections.<sup>124</sup> Each project had been assessed as *Good* in terms of the profiling assessment and *Strong* in terms of their BCR;
- the Queensland Government’s Gold Coast Rapid Transit project was announced as having provision made for an equity contribution of \$365 million. The Office of the Infrastructure Coordinator had assessed this project as having a *Satisfactory* BCR and *Very Good* in terms of its profile;
- the Gawler Rail Line Re-sleepering and Electrification initiative submitted by the South Australian Government was announced to receive \$293.5 million over five years—the Office of the Infrastructure Coordinator had assessed the project as having a *Strong* profile and a *Strong* BCR but with insufficient information<sup>125</sup>; and
- the Western Australian Government’s Northbridge Rail Link: \$236.0 million over six years (towards the sinking of the central city section of the Perth-Fremantle railway line and construction of a new rail platform to make available new land to develop above the rail line and as the first stage required for the Hub urban redevelopment project), which had been assessed as having a *Basic* profile but a *Strong* BCR but with insufficient information, with the Office of the Infrastructure Coordinator

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<sup>124</sup> A media release dated 12 May 2009 by the Minister for Infrastructure, Transport, Regional Development and Local Government (*Investing in the Nation’s Infrastructure Priorities*) states that the Government would contribute \$339.0 million for an equity injection into the Oakajee Port Common User Facilities and \$50.0 million for Darwin Port Expansion, with the money to be set aside subject to further work and consideration by Infrastructure Australia.

<sup>125</sup> This BCR was subsequently revised several times by the applicant.

noting the BCR was ‘based entirely on unconventional benefits’;  
and

- five projects that had either not met the information requirements for the development of the Interim Priority List, or that had been assessed as having insufficient merit to be included on the Interim Priority List were subsequently announced for funding. These are identified in Table 4.6.

**Table 4.6**

**Projects announced for funding in the May 2009 Budget that had been assessed as deficient against the Interim Priority List evaluation methodology**

Project	Profiling Assessment	Economic Appraisal (BCR)	Overall Merit Ranking
The New South Wales Government's West Metro project: \$91 million in 2008–09 for preconstruction work towards engineering and design work to further develop the project.	Excellent	Poor	Not ranked
The South Australian Government's Extension of Passenger Rail Services to Seaford initiative: \$291.2 million over five years.	Basic	Poor	Not ranked
The New South Wales Government's Pacific Highway upgrades package: one element funded, being \$618 million over five years towards the Kempsey bypass.	Basic	Satisfactory	No priority
The Queensland Government's Brisbane Inner City Rail Feasibility Study: \$20.0 million in 2008–09 towards a detailed feasibility study.	Excellent	Not submitted for evaluation	Not ranked
The Queensland Government's Bruce Highway Upgrade (Cooroy to Curra) project: \$488 million over four years.	Basic	Poor	Not ranked

Source: ANAO analysis of Office of the Infrastructure Coordinator data.

**4.38** The Office of the Infrastructure Coordinator advised ANAO in April 2010 that:

The Australian Government's decisions need to be viewed in the context of the Government's overall response to the global financial crisis, rather than as a reflection on Infrastructure Australia's processes. In the context of the stimulus efforts, none of the project proposals submitted to Infrastructure Australia was

‘shovel ready.’ There was a recognition by Infrastructure Australia that the Infrastructure Priority List was going to play a more significant role in:

- supporting national development in the medium and long-term; and
- providing an on-going stimulus measure, that is, if the global financial crisis proved to be long lasting, and there was a need for further stimulus measures after the initial measures had been implemented.

Having regard to the purpose of the Infrastructure Priority List, no funding decisions were taken by Governments as a result of the Interim Infrastructure Priority List. However, as at early 2009, further funding decisions (notably the allocation of funds from the Building Australia Fund) were still in prospect. In this context, the Infrastructure Coordinator and Infrastructure Australia continued to evaluate the project proposals through the first quarter of 2009 to compile a final Infrastructure Priority List.

## 5. The Final Priority List

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*This chapter examines the approach taken to formulate the content of the Final Priority List, which was published in May 2009.*

### Request for additional information

**5.1** Infrastructure Australia's December 2008 report to the Council of Australian Governments incorporating the Interim Priority List stated that Infrastructure Australia would continue to work with governments and relevant bodies to finalise a prioritised list.<sup>126</sup> The report included a table of 94 projects that were to be subjected to further analysis and advised that projects not included in this table would be considered on their merits in future assessment processes.<sup>127</sup> In terms of the process to finalise a Final Priority List, the report stated that:

In order to finalise the Infrastructure Priority List, Infrastructure Australia proposes to:

- subject the data underpinning the assessment of strategic fit to further detailed scrutiny;
- request the development of comprehensive economic analysis of selected projects, where only a rapid economic analysis is available at this stage;
- ask submitting organisations to provide comprehensive economic analysis of specified projects immediately, if currently available;
- request and scrutinise the detailed demand modelling underpinning the projects; and
- subject the economic modelling methodology to further scrutiny.

Infrastructure Australia does not propose to seek this information for all projects immediately. Infrastructure Australia intends to publish the Infrastructure Priority List in March 2009.<sup>128</sup>

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<sup>126</sup> Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 67.

<sup>127</sup> *ibid.*

<sup>128</sup> *ibid.*, p. 72.

**5.2** Consistent with its practice of publishing information on its methodology in the interests of transparency, on 19 December 2008 Infrastructure Australia released a Minimum Information Requirements document that outlined the additional economic appraisal and delivery information that was being sought so as 'to provide robust evidence to support the headline or summary results so far presented'. In these respects:

- the economic appraisal information sought through the Minimum Information Requirements document was consistent with, and drawn from, key aspects of the 22 criteria used by the Office of the Infrastructure Coordinator during the development of its recommendations on the Interim Priority List (see Table 4.2 in Chapter Four); and
- the project delivery information sought through the Minimum Information Requirements document was similar, but more detailed, to that originally sought as part of the Interim Priority List assessment process. The Minimum Information Requirements document presented the delivery information that was being sought in terms of the seven criteria that had been used to undertake the deliverability assessments as part of the Interim Priority List assessment process (see Table 4.5 in Chapter Four).

**5.3** The Minimum Information Requirements document noted that:

this information [on appraisal and deliverability assessments] will be readily available to organisations that have undertaken serious project development, in the form of the following documents which are a fundamental part of major project development processes:

- 'Strategic options' reports;
- 'Feasibility studies' including specialist engineering and environmental assessments and outline economic assessments;
- Project 'business cases', including demand modelling reports and economic methodology and results reports;
- 'Delivery' reports, including specific risk, governance and timing assessments.

**5.4** Also on 19 December 2008, the Office of the Infrastructure Coordinator wrote to the States and Territories requesting robust information to inform the development of the Final Priority List. In this respect, the Office of the Infrastructure Coordinator advised ANAO in April 2010 that the Infrastructure

Coordinator and his Office had contacted proponents of the 28 projects mentioned in the 5 December 2008 letter to the Minister (see paragraph 4.30) following the release of the Minimum Information Requirements document, requesting additional project information by mid-January 2009.

**5.5** The Minimum Information Requirements document did not seek any additional information for profiling purposes. Accordingly, profiling assessments were not conducted (or re-conducted) for information received in the second round of submissions. Consistent with this approach, at its 30 January 2009 meeting, the Council was advised by the Office of the Infrastructure Coordinator that the profiling assessment results remained unchanged from those that underpinned recommendations to the Council for the Interim Priority List.

**5.6** The Office of the Infrastructure Coordinator advised ANAO in December 2009 that appraisal and deliverability assessments were only conducted for projects where new or updated appraisal and deliverability information was received. In advance of the 30 January 2009 meeting, Council members were provided with short summaries of the 33 projects for which additional information had been received by 20 January 2009. In addition, summaries were provided to Council members at the meeting on four additional projects for which information had been received after 20 January 2009 but by 28 January 2009. The Office of the Infrastructure Coordinator:

- advised the Council that it was preparing summaries for the remaining projects on the Interim Priority List for which no additional material had been provided; and
- reiterated an earlier offer to provide Council members with individual briefings and access to all documentation concerning some or all of the projects.

## **New project submissions**

**5.7** Neither the Interim Priority List nor any of the associated material promulgated by Infrastructure Australia flagged that there would be opportunities to submit new candidates for inclusion in the Final Priority List. Rather, the 19 December 2008 report to COAG had stated that:

The Infrastructure Coordinator has made an interim analysis of the projects submitted to Infrastructure Australia. This analysis has directly informed which projects will be subjected to further analysis and these projects are

outlined in Table 5.<sup>129</sup> [ANAO emphasis. Table 5 was the list of 94 projects shortlisted in November 2008 for detailed evaluation]

5.8 Whilst no further public submissions were sought or received, four projects from different State and Territory governments were submitted and considered. In particular, as a follow-up to meetings between Premiers and the then Prime Minister, in March 2009 the Office of the Infrastructure Coordinator provided advice to the Council on 25 projects raised by the Premiers. The majority of these projects had been included on the Interim Priority List and Infrastructure Australia was proposing that they be included on the Final Priority List. In the December 2008 assessment by the Office of the Infrastructure Coordinator, two of the projects had been assessed as not meriting inclusion on the Final Priority List.<sup>130</sup>

5.9 There were also three projects that had not been previously submitted to Infrastructure Australia for consideration, and so had not been evaluated. These were:

- the Redcliffe Railway in Brisbane to provide a rail link initially from Petrie to Kippa Ring;
- the Adelaide O-Bahn Track Extension;<sup>131</sup> and
- the Ipswich Motorway in Queensland.<sup>132</sup>

5.10 The Ipswich Motorway project was included in the table of Infrastructure Priorities published in the report outlining the Final Priority List

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<sup>129</sup> Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 67.

<sup>130</sup> Namely: the Northbridge Rail Link in Western Australia (which had been one of the 22 potential candidates recommended by the Office of the Infrastructure Coordinator on 1 December 2008 for the Interim Priority List but the Office of the Infrastructure Coordinator was not satisfied with the robustness of the claimed BCR because of the unconventional approach that had been taken), and the Mornington Peninsula Connector Road in Victoria (which had been one of the six priority candidates recommended by the Office of the Infrastructure Coordinator for inclusion on the Interim Priority List. The principal concern raised in the Office of the Infrastructure Coordinator's further evaluation of this project was that the project would result in a slight decrease in public transport use and that the BCR analysis used a capital expenditure figure that was below the range of concept estimates.)

<sup>131</sup> The May 2009 Budget included \$61 million for this project over four years towards dedicated tracks and associated improvements for the final 4.5 kilometres of Adelaide's high speed O-Bahn corridor.

<sup>132</sup> The May 2009 Budget included \$884 million for the construction of eight kilometres of the Ipswich Motorway between Dinmore and Goodna, and 2.5 kilometres between Wacol and Darra; and planning for the Ipswich Motorway between Darra and Rocklea.

as a freight road project under the theme 'A national freight network', but was neither a priority project nor a pipeline project (see further at paragraphs 5.51 to 5.53). The other two projects were not included in the Final Priority List document but another project that had not been included on the Interim Priority List (the Moorebank Intermodal Terminal), was included on the Final Priority List.<sup>133</sup> This was the only project in the Final Priority List that had not featured in the Interim Priority List.

**5.11** In April 2010, the Office of the Infrastructure Coordinator advised ANAO that:

Reflecting the desire to produce the highest quality list of national infrastructure priorities, proponents contacted were not restricted to providing additional information for projects on the Interim Priority List but were allowed to bring forward additional information for other projects. In addition, the Office of the Infrastructure Coordinator also allowed other project proponents who contacted the Office to bring forward additional information consistent with the Minimum Information Requirements template.

**5.12** Similarly, in June 2010, the Chair of the Infrastructure Australia Council informed ANAO that:

All projects considered for, or included on the Final Priority List were subjected to the same scrutiny, including the strategic merit test and appraisal assessment. When a proponent submitted information for the first time, or submitted revised information, at any stage in the process, the same tests were conducted against the same standards.

**5.13** This approach meant that not all projects were being required to pass through all assessment filters so as to both demonstrate their strategic merit and perform well in the detailed appraisal undertaken in November 2008 (see further at paragraph 3.7 and Figure 3.1). In particular, appraisal assessments were not undertaken for 13 of the pipeline projects because a BCR had not

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<sup>133</sup> During the 2007 election, the then Opposition had committed \$300 million towards an intermodal terminal at Moorebank. In a letter dated 10 December 2008 the Minister directed the Infrastructure Coordinator (pursuant to section 28(2) of the Infrastructure Australia Act) to assume lead responsibility for various processes aimed at facilitating development of an intermodal terminal on the current School of Military Engineering site at Moorebank and associated logistics arrangements. At its 30 January 2009 meeting, the Council was advised of the Ministerial direction with the Minutes of that meeting recording that 'it was agreed to include Moorebank in the prioritisation pipeline list.'

been submitted for appraisal. In respect to the remaining 15 pipeline projects, the Office of the Infrastructure Coordinator's assessment had been that there was insufficient evidence to support the economic viability of the project.<sup>134</sup> In addition, the approach taken was not consistent with the published material given:

- as noted at paragraph 5.7, the report to COAG published on 19 December 2008 had stated that further analysis would be undertaken on the 94 projects included on the Interim Priority List, with no public statements made advising that new projects could be submitted for consideration;
- the report to COAG had further advised that any further or better information in respect to projects that had previously been submitted but had not been included on the Interim Priority List would be considered on their merits in future assessment processes, with no public statements that such projects could still be considered for the Final Priority List;<sup>135</sup> and
- the Minimum Information Requirements document had stated that 'to underpin its further analysis of these projects Infrastructure Australia now requires comprehensive and detailed information on the appraisal and deliverability assessments, to provide robust evidence to support the headline or summary results so far presented', with the document explicitly referring to the list of 94 projects included on the Interim Priority List.

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<sup>134</sup> In some instances, this was because the BCRs were assessed as out of date by the Office of the Infrastructure Coordinator. In other instances, the economic analysis was assessed as preliminary or inadequate.

<sup>135</sup> Specifically, the report to COAG stated that: 'Finally, it should be noted that many projects submitted to Infrastructure Australia do not appear in Table 5. Projects with a comparatively low Benefit-Cost Ratio (BCR) or with no cost-benefit assessment evidence have not been included in this table. It is stressed that if the BCR rises following more detailed analysis, or if analysis is provided in due course, Infrastructure Australia will consider these projects on their merits in future assessment processes.' Source: Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 67.

## Transparency of decision-making

**5.14** Infrastructure Australia was established 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.<sup>136</sup> Accordingly, it is a goal of Infrastructure Australia that infrastructure funding decisions will be taken following careful planning and rigorous assessments that are based on sufficient evidence.<sup>137</sup> The importance of this approach has been recognised by the Minister, who has stated that the creation of Infrastructure Australia was aimed at:

removing the temptation towards short-termism. It gives business a transparent process, and promotes evidence-based public investment decisions.<sup>138</sup>

## Roles and responsibilities

**5.15** The Infrastructure Australia Council has the statutory role of providing advice to the Minister on infrastructure matters, including the development of priority lists. In turn, the Infrastructure Coordinator (a statutory office holder) has the primary function of supporting the Council in the performance of its functions. The Office of the Infrastructure Coordinator supports the Infrastructure Coordinator with these staff engaged under the Public Service Act, through the DITRDLG.

**5.16** Under the legislative arrangements, the Council was empowered to decide which projects should be included on the Final Priority List. The Council was not obliged to accept the recommendations of officials within the Office of the Infrastructure Coordinator or of the Infrastructure Coordinator. There was also no legislative requirement for the Council to document the nature and extent of any inquiries undertaken, or caused to be undertaken, to

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<sup>136</sup> ANAO Audit Report No. 29 2008–09, *Delivery of Projects on the AusLink National Network*, Canberra, 23 April 2009, pp. 218–221.

<sup>137</sup> ANAO Audit Report No. 29 2008–09, *Delivery of Projects on the AusLink National Network*, Canberra, 23 April 2009, p. 220.

<sup>138</sup> The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, *Keynote address to the Australian Logistics Council's 8<sup>th</sup> Annual Forum, Australian Technology Park*, Sydney, 3 March 2010.

satisfy itself about which projects should and should not be included on the Final Priority List, or to record any reasons for the decisions taken. Nevertheless, documenting the basis for any significant decisions that are taken is recognised as aiding transparency and public accountability and, as noted at paragraph 5.14, it is a goal of Infrastructure Australia that infrastructure funding decisions will be taken following careful planning and rigorous assessments that are based on sufficient evidence.<sup>139</sup>

**5.17** The overall evaluation framework envisaged by the Office of the Infrastructure Coordinator for developing recommendations on the Final Priority List was consistent with the published Prioritisation Methodology. Similar administrative arrangements were also proposed, with the Prioritisation Evaluation Committee to be re-convened (with the same members), the Profiling Advisory Team and Appraisal Advisory Teams to be re-established and input sought from external advisors on the economic appraisals.

**5.18** In addition, the Office of the Infrastructure Coordinator commenced updating the Evaluation Plan that had been approved for the development of the Interim Priority List. However, the draft updated Evaluation Plan was not finalised and approved by the Infrastructure Coordinator.<sup>140</sup>

**5.19** The Prioritisation Evaluation Committee within the Office of the Infrastructure Coordinator again had a central role in advising the Infrastructure Coordinator and, in turn, the Council on the composition of the Final Priority List. However, rather than the Prioritisation Evaluation Committee developing recommendations for the Infrastructure Coordinator to

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<sup>139</sup> However, as outlined in Chapter Four, the Minutes of the Council's 12 December 2008 meeting did not record that:

- the Council had not accepted the results of the Office of the Infrastructure Coordinator's evaluation that had seen a list of 28 initiatives recommended to be included on the Interim Priority List; but, instead
- had requested that additional information be sought for all 94 projects that had been shortlisted for evaluation in November 2008 with the Office of the Infrastructure Coordinator to report back to the Council in January 2009 with its recommendations on the Final Priority List.

<sup>140</sup> The draft located by ANAO within the Office of the Infrastructure Coordinator records has an issue date of 15 January 2009.

then take to the Council,<sup>141</sup> the Council took a leading role in guiding the evaluation process, and there was significant engagement with proponents for certain projects that the Council expressed particular interest in. In this respect, in February 2010, the Office of the Infrastructure Coordinator advised ANAO that:

The assessment of proposals was an interactive one between Infrastructure Australia and the proponents. All proponents had an opportunity to present additional material against the Minimum Information Requirements which were available on the Infrastructure Australia website, and were encouraged to submit updated information where it became available.

**5.20** Similarly, in June 2010, the Chair of the Infrastructure Australia Council informed ANAO that:

It is the Council that has the advisory responsibilities under the *Infrastructure Australia Act 2008*, not the Infrastructure Coordinator or the Office of the Infrastructure Coordinator.

It is true to say that the Infrastructure Australia Council gave the Office of the Infrastructure Coordinator guidance on its overall approach and tested the Office of the Infrastructure Coordinator's conclusions in relation to specific projects. The Council also asked for further information on some projects, particularly those of demonstrable national importance or projects with particular sensitivities, to ensure that their own understanding of the projects was complete.

This iterative process enabled Infrastructure Australia to refine its understanding and assessment of the proposals that had been submitted for its consideration. This is appropriate for an advisory body of twelve infrastructure experts who were appointed to ensure the development of robust policy.

## Council meeting records

**5.21** Under the approach taken to developing the Final Priority List, rather than an Evaluation Report being prepared by the Office of the Infrastructure

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<sup>141</sup> For example, the draft Evaluation Plan for the Final Priority List had outlined that the closing date for the submission of additional information was set as 16 January 2009 with evaluation of material already held to have commenced on 5 January 2009 and to be completed by 20 January 2009 with the evaluation report to be provided the following day to the Infrastructure Coordinator. This plan further proposed that the recommended Final Priority List would be provided to the Council at its 30 January 2009 meeting.

Coordinator that documented how the evaluation was conducted and the results, the primary records of the development of the List were the papers submitted to the Council meetings and the meeting Minutes.<sup>142</sup> The key meetings in this regard were held on 30 January 2009, 27 February 2009 and 27 March 2009.

**5.22** As noted at paragraph 5.6, for the 30 January 2009 meeting, Council members were provided with short summaries of the 37 projects for which additional information had been received by 28 January 2009. The Minutes of the 30 January 2009 Council meeting state that there was substantial discussion about the themes and alignment with the projects in the Office of the Infrastructure Coordinator's priority matrix. The Council decided to add one project to the pipeline list, and asked that further work be undertaken on a further five projects, and that progress on a further two projects be reviewed. The Office of the Infrastructure Coordinator advised ANAO in May 2010 that:

At its 30 January 2009 meeting, [the] Infrastructure Australia [Council] provided guidance to the Infrastructure Coordinator (and the Office of the Infrastructure Coordinator), including a request that proposals be assessed against the themes adopted at its meetings in December 2008. Following the 30 January 2009 Infrastructure Australia [Council] meeting, proposals were further evaluated against the profiling, appraisal and deliverability criteria, including:

- further assessment of the proposals' thematic alignment; and
- following the 28 February 2009 meeting<sup>143</sup> of [the] Infrastructure Australia [Council], the proposals' national significance.

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<sup>142</sup> In July 2010, the Infrastructure Coordinator informed ANAO that he had prepared the papers and minutes.

<sup>143</sup> The Infrastructure Coordinator had circulated an updated draft Priority List to Council members on 12 February 2009. Following further assessments of projects, a further updated draft Priority List was circulated for consideration at the 27 February 2009 Council meeting. A further updated draft of the Final Priority List was provided for consideration at the Council's 27 March 2009 meeting.

**5.23** The evolving Priority List<sup>144</sup> was discussed at the Council meetings of 27 February (with the Minutes stating that Council requested further projects be added to the Priority List) and 27 March 2009 (with one project minuted as being moved from the pipeline to the priority list). However, neither the papers for these meetings nor the meeting Minutes record when certain projects were included on the Final Priority List (as either a priority project or a pipeline project), or the reasons for their inclusion (having regard to instances where the Office of the Infrastructure Coordinator's analysis and advice to the Council had identified methodological issues with the BCR submitted by the proponent, and/or the concern that the project may not be economically viable).

**5.24** For example, the Final Priority List provided to the Minister on 27 March 2009 comprised nine priority projects and 27 pipeline projects. The published List included a 28<sup>th</sup> pipeline project, being the Western Australian Government's Northbridge Rail Link (The Hub) project. In April 2010, the Office of the Infrastructure Coordinator advised ANAO that:

The Final List contained nine priority projects and 28 pipeline projects, with Northbridge Rail Link being added to the pipeline list by [the] Infrastructure Australia [Council] at its 1 May 2009 meeting.

**5.25** Similarly, in respect to the Queensland Government's Eastern Busway project, the summary provided to the Council at its 30 January 2009 meeting advised that:

- 'robust' information and an associated economic appraisal had been provided in respect to Stage Two of the overall project but no such information had been provided in relation to Stage Three;
- the claimed BCR for Stage Two indicated 'marginal' economic viability but the part of Stage Two for which Commonwealth funding had been requested may have a BCR lower than that claimed (the State

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<sup>144</sup> At this meeting, three projects were added to the 'pipeline' of projects with 'real potential', being: the Northern Connector Road and Rail Corridor (South Australia); Mornington Peninsula Connector Road (Victoria), and Northern Link Road Tunnel (Brisbane City Council). The Council further agreed, subject to its BCR, the Option 1 Eastern Busway Stage 2 project from Queensland should be included as a 'pipeline' project and that the Northbridge Rail Link (The Hub) project from Western Australia should 'be drawn to the attention of government and whether other sources of funds may be suitable. If not, it should be flagged as a project of Infrastructure Australia's interest.' Both projects were later added to the list of 'pipeline' projects.

Government had already committed funding for the construction of part of Stage Two); and

- as a BCR had not been presented for Stage Three, it could not be compared on economic criteria with other projects that had been submitted to Infrastructure Australia.

**5.26** At the 30 January 2009 meeting, the Council asked for more work to be undertaken on this and four other projects. The Minutes of the 27 February 2009 meeting recorded that 'subject to BCR, Option One Eastern Busway Stage Two should be included' on the project pipeline. However, the Final Priority List included both Stage Two and Stage Three of the Eastern Busway project, with Council's meeting Minutes not recording when the decision had been taken to include Stage Three, or why.

**5.27** In addition to an absence of records concerning why certain projects were included on the Final Priority List, a consistent approach was not taken to recording decisions to promote projects from the 'pipeline' list to the 'priority' list. In particular:

- the Minutes of the 27 March 2009 meeting record that the Council had decided to 'move the Pacific Highway project into the priority list [from the pipeline], on the basis of a recommendation from the Infrastructure Coordinator that further analysis was undertaken with the same rigour as other projects and the national significance of the Pacific Highway justified such a decision'; but
- the Minutes of the 30 January 2009 meeting had recorded that the Council had decided to include the Seaford Rail Extension project on the pipeline list. This project was later promoted to the priority list, but the Minutes of the 27 February 2009 and 27 March 2009 meetings do not record this decision having been taken, or the reasons for it.

**5.28** In June 2010, the Chair of the Council suggested to ANAO that the various drafts of the 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.

## Recommendation No.1

5.29 ANAO recommends 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 response*

5.30 Infrastructure Australia agreed with the recommendation.

## Role of economic appraisal in the prioritisation process

5.31 The Prioritisation Methodology had outlined the key steps that would be taken to determine the Priority List once all submissions and subsequent advice had been received. This methodology was promoted as providing:

an integrated framework that harmonises the information and data resulting in a balanced range of initiatives and uses cost-benefit analysis (CBA) as the primary tool for prioritising initiatives. The aim of the methodology is to be:

- Logical and well defined – as it is systems focused and based on and conforms to *Infrastructure Australia's* aims, objectives, strategic priorities and principles;
- Clear and transparent – as it promotes the open sharing of information;
- Evidence driven – as it uses quality and suitable data and consistent tools; and
- Robust – as it is comprehensive by looking through multi-lenses to solve a complex problem.<sup>145</sup>

5.32 The Prioritisation Methodology had further outlined that the selection of projects to be included on the Final Priority List would 'integrate the profiling and appraisal assessments and other data and information'<sup>146</sup> and

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<sup>145</sup> Infrastructure Australia, *Outline of Infrastructure Australia's Prioritisation Methodology*, 24 September 2008, p. 3.

<sup>146</sup> *ibid.*, p. 5.

reiterated that the process would 'use objective cost-benefit analysis as the primary driver of decision-making'.<sup>147</sup>

**5.33** In publishing the Interim Priority List, Infrastructure Australia noted that projects with a comparatively low BCR or with no cost-benefit assessment evidence had not been included in the list of 94 projects.<sup>148</sup> However, there were also a significant number of projects included in the Interim Priority List that had a comparatively low BCR or where the proponent had not provided sufficient evidence to enable Infrastructure Australia to assess the BCR that had been submitted.<sup>149</sup> Accordingly, an adequate economic appraisal was not applied as an eligibility criterion for inclusion on the Interim Priority List.

**5.34** Publication of the Minimum Information Requirements document (released in December 2008 in conjunction with publication of the Interim Priority List) was aimed at obtaining more comprehensive and detailed information from proponents to support the economic cost-benefit analysis of projects on the Interim Priority List (as well as further information on project deliverability risks, governance arrangements and timing). Accordingly, the Minimum Information Requirements document reinforced the importance of projects performing well in an economic appraisal in order to be included on the Final Priority List.

**5.35** The project summary documents prepared by the Office of the Infrastructure Coordinator for the Council's consideration were also consistent with the published Prioritisation Methodology's emphasis on economic appraisal. Specifically, they comprised:

- a description of the project, proponent and costs estimated by the proponent;

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<sup>147</sup> *ibid.*, p. 4.

<sup>148</sup> Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 67.

<sup>149</sup> For example, the Bruce Highway Upgrade (Brisbane to Cairns) project was included in the Interim Priority List with ANAO analysis identifying that an economic appraisal had not been undertaken in respect to that project. In December 2009 the Office of the Infrastructure Coordinator advised ANAO that: 'No appraisal document was required for the Bruce Highway (Brisbane to Cairns) because the submission did not provide a cost-benefit analysis and therefore the appraisal step of the evaluation could not be carried out.'

- the results of the Office of the Infrastructure Coordinator's profiling assessment;
- a summary of the Office of the Infrastructure Coordinator's analysis of the quality and rigour of the economic cost-benefit analysis provided by the proponent and the Office of the Infrastructure Coordinator's estimated BCR for the project after adjusting for any methodological shortcomings in the proponent's approach; and
- a deliverability assessment outlining whether the project had adequately justified the need for Commonwealth funding, explored potential alternative funding sources and market/pricing options, risks had been appropriately analysed and appropriate governance structures proposed.

**5.36** Of particular note was that the Office of the Infrastructure Coordinator continued to propose that cost-benefit analysis (through a BCR) be used as a primary driver of decision-making. Specifically, the Council was advised at its 30 January 2009 meeting that the Office of the Infrastructure Coordinator proposed that a BCR value of 1.5 be used as a minimum benchmark for a number of reasons, as follows:

First, the judgement is that unless projects can establish a reasonable margin for success then it is unwise to pursue a lower figure or we risk funding projects that are in reality not economically viable. A higher figure would raise the bar too high. Given considerable lack of confidence in a number of the cost estimates we would be wary to proceed on BCRs less than 1.5 but this is a judgement to be assessed by the Council.

Second, this is a comparative exercise. The higher the BCR, the greater the economic, social and environmental return to society for each public dollar invested. In some ways it is odd to focus on the minimum benchmark – we should really be focusing on the projects at the top. If we wish to prioritise projects with lower BCRs, we will need to explain carefully why we think those projects are better than those with much higher BCRs.

Third, we believe that it is important Infrastructure Australia send a strong signal about its expectations.

Finally, there is of course an argument that BCR does not always predict the future perfectly and a few projects with low BCRs do prove to be worthwhile. However, our view is that the balance of risk in Australia at the moment is not that good projects are being missed due to low BCRs – but the opposite: that too many poor projects are going ahead because policy makers are not

listening to the poor BCRs or that marginal BCRs are too optimistic and the benefits are never realised.

**5.37** The Office of the Infrastructure Coordinator's proposed approach of focusing on projects with a BCR above 1.5 was not endorsed by the Council.<sup>150</sup> As a result, a number of projects included on the Final Priority List were assessed as being likely to have a BCR below 1.5, or the absence of information from the proponent meant an economic appraisal was unable to be conducted. In June 2010, the Chair of the Infrastructure Australia Council informed ANAO that:

All Priority Projects were assessed as having a BCR of above 1.5;<sup>151</sup> however it was never the intention that all Pipeline Projects should have a BCR of above 1.5, or indeed have a BCR at all.

**5.38** However, the Prioritisation Methodology published in 2008 did not contemplate that a project without a robust economic appraisal would remain a candidate for inclusion on the Final Priority List, or outline any criteria that would be applied to such projects in lieu of their BCR being used as the primary driver of decision-making. In October 2009, Infrastructure Australia published guidelines for submissions to be made during 2009–10 to update the National Infrastructure Pipeline (that is, the list of pipeline projects). These guidelines continued to advise stakeholders that its evaluation process involves three phases (strategic fit and profiling, economic appraisal and deliverability assessments) and that:

The appraisal component of Infrastructure Australia's infrastructure planning process adopts 'monetised' cost-benefit analysis as its core tool. This is complemented by 'non-monetised' effects. Together, a picture of the full

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<sup>150</sup> This was reflected, for example, in the Chairman's 7 May 2009 letter to the Minister transmitting the Final Priority List wherein it was stated in relation to the nine priority projects that: 'all the projects' economic "benefit-cost ratios" are very significantly above 1.1, and many are above 2.1'.

<sup>151</sup> Eight of the nine priority projects had a BCR of 1.5 or above. One (the East-West Rail Tunnel project in Victoria) was assessed by the Office of the Infrastructure Coordinator as having a BCR below 1.5 (excluding WEBs), with Office of the Infrastructure Coordinator's assessment being that the claimed BCR (including WEBs) of 1.8 was optimistic and, on a more conservative view, the BCR including WEBs was assessed as being around 1.5 See further at paragraph 4.18 in respect to the general approach taken to WEBs.

economic, environmental and social merits of each initiative can be determined.<sup>152</sup>

**5.39** Accordingly, the published guidelines state that proponents must, among other things:

**Submit robust and objective Benefit-Cost Analysis which is supported by strong evidence.** In order to demonstrate that the Benefit-Cost Analysis is indeed robust, full transparency is required. In addition, substantial supporting evidence to demonstrate that the input data underpinning the Benefit-Cost Analysis – notably the demand/price forecasts, and capital/operational costs are justified – is also required. Clearly, independent verification of these elements will offer a greater degree of confidence that the data is robust.<sup>153</sup> [*Emphasis as per original*]

**5.40** However, the guidelines do not identify the criteria that will be applied in deciding which projects will be identified as priority projects, and which will be identified as pipeline projects that require further development before they merit being considered for Commonwealth funding. As outlined above, and summarised in Table 5.1, different criteria were applied in identifying priority and pipeline projects for the Final Priority List published in May 2009.

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<sup>152</sup> Infrastructure Australia, *Better Infrastructure Decision Making: Guidelines for making submissions to Infrastructure Australia's infrastructure planning process, through Infrastructure Australia's Reform and Investment Framework*, October 2009, p. 21.

<sup>153</sup> *ibid.*, p. 20.

**Table 5.1****Criteria for including projects on the Final Priority List**

'Three pillars' outlined in the September 2008 Prioritisation Methodology and December 2008 Minimum Information Requirements	Criteria that each of the Priority Projects were reported as having met	Criteria that each of the Pipeline Projects were reported as having met
Profiling: the fit with Infrastructure Australia's seven strategic priorities.	Fit one of Infrastructure Australia's seven themes for action.	
No equivalent	Are of national significance.	
No equivalent	Make a clear and positive contribution to Australia's policy goals.	
Appraisal—the objective and quantified economic cost-benefit analysis.	Demonstrate significant long-term national benefits to Australia (all projects' economic cost-benefit ratios are very significantly above 1:1 and some are above 2:1).	No equivalent
Deliverability—project risk, governance and timing.	Demonstrate robust delivery mechanisms to ensure they can be successfully implemented.	No equivalent

Source: ANAO analysis and advice from the Office of the Infrastructure Coordinator.

## Finalisation and publication of the Final Priority List

**5.41** In April 2009, the Office of the Infrastructure Coordinator advised ANAO that, at its 27 March 2009 meeting, the Council:

finalised the Infrastructure Priority List and agreed that a copy of the final Infrastructure Priority List be forwarded to the Minister with cover note of transmission noting that a more detailed letter of transmission would be provided following supplementary work on a number of projects. The List contained a list of nine priority projects and 27 pipeline projects.

**5.42** Accordingly, on 27 March 2009, the Infrastructure Coordinator (under delegation from the Council) provided the Minister with the Final Priority

List.<sup>154</sup> This timeframe was consistent with the Council of Australian Government's request that the Final Priority List be provided by March 2009. However, the List was not published at that time.

**5.43** On 7 May 2009, an updated Final Priority List, together with an outline of the process adopted and details of further work that had been done, was provided to the Minister by the Chairman. It now included a 28<sup>th</sup> pipeline project (see further at paragraph 5.24).

**5.44** The Final Priority List was released by the Minister on Tuesday 12 May 2009<sup>155</sup> within a document titled *National Infrastructure Priorities: Infrastructure for an economically, socially and environmentally sustainable future*. Specifically the document:

- stated that nine 'priority' projects had been identified and should be considered for funding from the Building Australia Fund (together with a tenth project, being the Ipswich Motorway);
- stated that 28 'pipeline' projects had been identified for which further project development and analysis was required before Infrastructure Australia could make a final recommendation; and
- included a table titled 'Infrastructure Priorities'.

## Presentation of the Final Priority List

**5.45** The table titled 'Infrastructure Priorities' was not the Final Priority List, but the List formed a subset of this table. Divided by seven themes, the table comprised four separate categories:

- the development of national strategies in five areas (energy, ports, freight network, infrastructure for indigenous communities and water) together with documented support for the proposed National Broadband Network;

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<sup>154</sup> The Minister was advised that a transmission letter from the Chairman would be provided in due course together with supplementary information on the Northbridge Rail Link, Mornington Peninsula and Northern Link projects.

<sup>155</sup> The Hon Anthony Albanese MP (Minister for Infrastructure, Transport, Regional Development and Local Government), *Investing in the Nation's Infrastructure Priorities*, Media Release, 12 May 2009.

- nine 'priority' projects (with a total estimated cost of \$17.3 billion) that the Minister was advised had passed 'the four stringent tests' conducted by Infrastructure Australia:
  - the projects fit one of Infrastructure Australia's seven themes for action and are of national significance;
  - the projects contribute to Infrastructure Australia's strategic policy goals—supporting growth, protecting the environment and promoting social inclusion;
  - the projects had demonstrated significant long-term national benefits (in particular, each project was reported as having a BCR 'very significantly' above 1.1); and
  - the projects had demonstrated robust delivery mechanisms to ensure they can be successfully implemented;
- the Ipswich Motorway Upgrade (Dinmore to Goodna) which Infrastructure Australia advised the Minister had been assessed as meeting the Building Australia Fund evaluation criteria (in order for increased costs to be funded through that Fund);<sup>156</sup> and
- 28 projects (with a total estimated cost of some \$40 billion) which Infrastructure Australia intended to form the 'front end' of a pipeline of potential future projects.

**5.46** Whilst careful reading of the full document would enable readers to identify which projects included in the table were on the Final Priority List and which were not, the inclusion of the National Broadband Network and the Ipswich Motorway Upgrade in the table of 'infrastructure priorities' resulted in uncertainty amongst key stakeholders (including Parliamentarians) concerning the extent to which Infrastructure Australia had evaluated these initiatives, and the purpose of any such evaluation. In June 2010, the Chair of the Infrastructure Australia Council informed ANAO that:

In presenting a complete list of projects in the table on page 10 and 11 of the Infrastructure Australia Report, parties were required to read the text of the

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<sup>156</sup> On page 23 of the document, the Ipswich Motorway project with an estimated cost of \$1.95 billion was included as one of five freight road projects.

report to understand the status of the National Broadband Network and the Ipswich Motorway upgrade. It is considered that the distinction between Priority and Pipeline Projects was very clear in both the table and the text.

### ***National Broadband Network***

**5.47** For transport, water and energy infrastructure, the *Nation-building Funds Act 2008* requires that payments not be made from the Building Australia Fund unless the relevant Minister has obtained advice from Infrastructure Australia. Advice must also be obtained from Infrastructure Australia in relation to communications infrastructure, except where the infrastructure relates to the National Broadband Network. Rather, the legislation permits National Broadband Network payments to be made from the Building Australia Fund without the Communications Minister having obtained advice from Infrastructure Australia.

**5.48** Consistent with this legislative background, the Office of the Infrastructure Coordinator's screening of projects submitted as candidates for the Interim Priority List required that any initiatives in the telecommunications sector that could be delivered via the implementation of the National Broadband Network were to be excluded from the evaluation. In December 2009, the Office of the Infrastructure Coordinator advised ANAO that the National Broadband Network project had not been submitted to Infrastructure Australia for assessment under the Infrastructure Priority List process.

**5.49** Nevertheless, in considering the Office of the Infrastructure Coordinator's proposals for the Interim Priority List, at its 1 December 2008 meeting, the Infrastructure Council had agreed that 'the national broadband initiative was a genuine national building project'. Accordingly, the Interim Priority List published on 19 December 2009 included, under the theme 'a national broadband network' a statement that:

Infrastructure Australia supports the investment of \$4.7 billion from the Building Australia Fund to develop the National Broadband Network.<sup>157</sup>

**5.50** As outlined in ANAO Audit Report No. 20 2009–10, *The National Broadband Network Request for Proposal Process*, the procurement process in relation to the Government's commitment to make a public equity investment

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<sup>157</sup> Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 64.

of up to \$4.7 billion was terminated on 7 April 2009. In this respect, the Final Priority List published in May 2009 stated that:

Infrastructure Australia supports an investment from the Building Australia Fund to develop the National Broadband Network.<sup>158</sup>

### *Ipswich Motorway*

**5.51** Rather than continue the planning and preconstruction work on the previous Government's \$2.2 billion project known as the Goodna Bypass in South East Queensland, in the 2007 Federal election the ALP committed \$1.1 billion to fully fund the Ipswich Motorway Upgrade between Dinmore and Goodna.<sup>159</sup> As an existing Australian Government funding commitment, the Ipswich Motorway project was not included in the Queensland Government's submission to Infrastructure Australia. However, in April 2009, the Queensland Government made a submission to the Infrastructure Coordinator in respect to funding towards increased project costs, as follows:

The Nation Building Program (2009–10 to 2013–14) agreement between the Australian and Queensland Governments includes an Australian Government commitment of \$1.14 billion towards the Ipswich Motorway from Dinmore to Goodna. The Queensland Department of Transport and Main Roads estimates the Target Outturn Cost for the project is \$1.95 billion. A request for this amount was submitted to the federal Department of Infrastructure, Transport, Regional Development and Local Government on 10 December 2008, seeking the additional \$810 million project cost. It is on this basis that I am writing to you to request funding towards this project under the Infrastructure Australia Program.

**5.52** In December 2009, the Office of the Infrastructure Coordinator advised ANAO that:

Interim assessment processes were not undertaken for this project because it was not submitted to Infrastructure Australia prior to January 2009. Profiling, appraisal, delivery and Building Australia Fund evaluation criteria

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<sup>158</sup> Infrastructure Australia, *National Infrastructure Priorities: Infrastructure for an economically, socially and environmentally sustainable future*, May 2009, p. 13.

<sup>159</sup> ANAO Audit Report No. 29 2008–09, *Delivery of Projects on the AusLink National Network*, Canberra, 23 April 2009, pp. 16 and 189. That report further noted (at page 174) that savings of \$330 million from 2007–08 and 2008–09 funding previously allocated to the Goodna Bypass project were used to fund the commencement of some of the ALP Election Commitments.

assessments were undertaken for this project after information was submitted to Infrastructure Australia.

**5.53** The results of the Office of the Infrastructure Coordinator's profiling assessment and review of the proponent's BCR did not support the inclusion of the project as a priority project. However, the evaluation against the Building Australia Fund criteria supported the extra project costs being funded from the Building Australia Fund. As noted at paragraphs 5.44 and 5.45, this project had been included in the published table titled 'Infrastructure Priorities' but had not been included as either a priority or pipeline project on the Final Priority List.

## Selection of priority projects

**5.54** As noted at paragraph 5.45, the Final Priority List included nine projects that had been assessed as being consistent with the Infrastructure Australia's seven themes, would contribute to Infrastructure Australia's strategic policy goals and had demonstrated long-term economic benefits (through their BCR). In addition, whilst concluding more broadly<sup>160</sup> that the projects submitted to Infrastructure Australia had not resulted in initiatives that were truly nation building, these nine projects were considered to be of national significance.

**5.55** Four of the nine priority projects had been ranked highly throughout the entire process by which the Final Priority List was developed.<sup>161</sup> In particular, in December 2008 they had been included within the Office of the Infrastructure Coordinator's recommended list of six priority projects<sup>162</sup> that had:

- performed well in the profiling assessment;

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<sup>160</sup> As reflected in the Chairman's letter of 7 May 2009 transmitting the updated Final Priority List to the Minister.

<sup>161</sup> These were the F3 to Branxton Link in New South Wales, the Majura Parkway Stage 2 in the Australian Capital Territory, the East-West Rail Tunnel in Victoria and the Regional Rail Express project also in Victoria.

<sup>162</sup> The remaining two projects included in the Office of the Infrastructure Coordinator's December 2008 recommended list of priority projects were included as pipeline projects on the Final Priority List. These projects were the Northern Connector Road and Rail Corridor and the Mornington Peninsula Connector Road.

- the initial economic appraisal concluded that the BCR was above 1.5; and
- the proponent's BCR was methodologically robust and supported by sufficient information.

**5.56** In respect to each of these four projects, further information was provided to Infrastructure Australia in response to the December 2008 request for additional information to support the economic appraisals and deliverability assessments. The analysis of this further information reinforced the Office of the Infrastructure Coordinator's earlier assessment. Three of the projects were announced in the May 2009 Budget to receive funding (the F3 to Branxton Link in New South Wales,<sup>163</sup> the Regional Rail Express Line in Victoria<sup>164</sup> and the East-West Rail Tunnel also in Victoria<sup>165</sup>) but the fourth (the Majura Parkway Stage 2 project in the Australian Capital Territory) has not to date been announced to receive any Commonwealth funding (this project had the highest BCR of the nine priority projects).

**5.57** A further two of the nine priority projects had been included in the Office of the Infrastructure Coordinator's December 2008 recommended list of 22 projects for which further information was needed to support the proponent's economic appraisal. These two projects were the Queensland Government's Gold Coast Rapid Transit project and the South Australian Government's Gawler Rail Line Upgrades (re-sleepering and electrification) project. In January 2009, the proponents for each project submitted further information to Infrastructure Australia. The additional information and further clarification with the proponents resolved the Office of the Infrastructure Coordinator's concerns with the Council advised at its 30 January 2009 that each was likely to have a BCR less than claimed, but that the BCRs were likely

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<sup>163</sup> Specifically, \$1,451 million over six years (including \$158.0 million in 2008–09 and \$162.0 million in 2013–14) towards the construction of 40 kilometres of dual carriageway for a project now referred to as the Hunter Expressway.

<sup>164</sup> Specifically, \$3,225 million over six years towards the separation of V/Line (regional) and metro rail services between West Werribee and Southern Cross Station via Sunshine.

<sup>165</sup> Specifically, \$40 million over two years from 2011–12 for preconstruction work towards a rail tunnel from Dynon to St Kilda Road.

to remain at or above 1.5. Both projects were included in those announced in the May 2009 Budget to receive funding.<sup>166</sup>

**5.58** A further two projects submitted by the South Australian Government were included as priority projects on the Final Priority List. At the Interim Priority List stage, the proponent had initially submitted BCRs that were below the evaluation threshold adopted of 1.5.<sup>167</sup> Later submissions increased the claimed BCRs, as follows:

- in respect to the Seaford Rail Extension project, the January 2009 submission to Infrastructure Australia increased the claimed BCR above 1.5 with the Office of the Infrastructure Coordinator advising the Council at its 30 January 2009 meeting that there were ‘substantial questions’ about the project costs that would need to be resolved before any funding was committed to the project and that more accurate measurement of time savings could reduce the claimed BCR but that ‘it would be unlikely to reduce it below 1.5’.<sup>168</sup> At that meeting, the Council decided to include the project on the ‘pipeline’ list and it was later promoted to the ‘priority’ list<sup>169</sup> with the May 2009 Budget including \$291.2 million for this project over five years; and
- the Adelaide Rail Freight Junctions and Level Crossing – Goodwood and Torrens project was originally submitted in October 2008 with a BCR of below 1.5 but which was increased in November 2008 and again in January 2009 (to above 1.5). The Office of the Infrastructure Coordinator advised the Council at its 30 January 2009 meeting that, whilst ‘the basic structure of the analysis is robust’ there were

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<sup>166</sup> Specifically: \$293.5 million over five years for the Gawler Rail Line Upgrades (re-sleepering and electrification) project and provision for ‘an equity contribution’ of \$365 million in relation to the Gold Coast Rapid Transit project.

<sup>167</sup> The Office of the Infrastructure Coordinator’s Evaluation Report for the Interim Priority List recorded an economic appraisal of *Poor* for the Seaford Rail Extension project but a rating for the Adelaide Rail Freight Junctions and Level Crossing – Goodwood and Torrens project was not recorded in the Evaluation Report.

<sup>168</sup> In February 2010, the Office of the Infrastructure Coordinator advised ANAO that: ‘In February 2009, South Australia drew Infrastructure Australia’s attention to a technical issue relating to a long-term growth rate used in the demand modeling, including the impact of this change on the BCR results and sensitivity tests.’ This reduced the BCR but it remained above 1.5.

<sup>169</sup> As noted at paragraph 5.27, the Minutes of the 27 February 2009 and 27 March 2009 meetings do not record this decision having been taken, or the reasons for it.

‘questions regarding nearly half of the claimed benefits identified’ in respect to the claimed BCR.<sup>170</sup> In February 2010, the Office of the Infrastructure Coordinator advised ANAO that:

The results of further consideration, including written clarification from the South Australian Government (12 February 2009), are reflected in the final assessment, which seeks to give a view on the degree to which the concerns would affect the BCR. In the subsequent final appraisal assessment, a view of both upside and downside risks was judged to put the BCR in the region of 1.5.

**5.59** The final project on the priority list, the Pacific Highway Corridor in New South Wales, had been assessed by the Office of the Infrastructure Coordinator in developing its recommendations on the Interim Priority List, but had not been put forward to the Council as a priority project. This was because the claimed BCR was not seen as sufficiently high. No further information in respect to this project was provided after publication of the Interim Priority List. This project was included as a pipeline project on the initial drafts of the Final Priority List. As noted at paragraph 5.27, at its 27 March 2009 meeting, the Council decided to move the project into the priority list:

on the basis of a recommendation from the Infrastructure Coordinator that further analysis was undertaken with the same rigour as other projects and the national significance of the Pacific Highway justified such a decision.

**5.60** Except for one project (the East-West Rail Tunnel), the Office of the Infrastructure Coordinator advised the Council at its 30 January 2009 meeting that the projects had economic merit. However, for some of the priority projects there remained unresolved issues concerning the proponent’s economic analysis. For example:

- for the Gawler Rail Line Upgrades project, the Council was advised: ‘Issues with project costs and validity of the base case could significantly affect the economic validity of the project’;

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<sup>170</sup> For example, the Office of the Infrastructure Coordinator advised the Council that ‘treating capital expenditure for rolling stock in line with conventional analysis, excluding Wider Economic Benefits and deleting property uplifts from Transport Oriented Development would reduce the BCR’ to below 1.5.

- in relation to the Seaford Rail Extension project, the Office of the Infrastructure Coordinator noted that ‘the questions about projects costs are substantial’; and
- in respect to the Adelaide Rail Freight Junctions and Level Crossings-Goodwood and Torrens project, the Council was advised that there were concerns regarding the claimed benefits associated with this project (see further at paragraph 5.58).

## Identification of pipeline projects

**5.61** The concept of a project pipeline had been contemplated by the Office of the Infrastructure Coordinator in the approach it had taken to preparing recommendations on the Interim Priority List. In particular, the Office of the Infrastructure Coordinator had identified both priority projects and those with potential for the Interim Priority List. For the purposes of the Interim Priority List, to be recommended by the Office of the Infrastructure Coordinator as having potential, the project submission:

- was required to be supported by sufficient information for the Office of the Infrastructure Coordinator to scrutinise the profiling for the project, with the Office of the Infrastructure Coordinator’s assessment then concluding that the project was, as a minimum, a good strategic fit; and
- indications were that the BCR for the project was likely to be at least 1.5, but sufficient information had not yet been provided to support the proponent’s economic appraisal.

**5.62** However, the pipeline projects included in the Final Priority List reflected less stringent criteria. Each had been assessed as fitting one of Infrastructure Australia’s seven themes for action as being of national significance.<sup>171</sup> In particular, the economic viability had not been demonstrated for a number of these projects at the time the List was finalised. In June 2010, the Chair of the Infrastructure Australia Council commented to ANAO that:

... the Infrastructure Australia Council used some discretion in the determination of projects to go into the Pipeline. This is entirely appropriate.

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<sup>171</sup> In reaching this conclusion, it was recognised that specific projects in a particular locality can assist in pursuing various national priorities.

Infrastructure Australia methodologies, which have been transparent, may need to be amended to make this explicit.

## Profiling

**5.63** Each of the priority projects had been assessed adequately in terms of their strategic fit. By way of comparison, there was significant variability in the assessed merits of the 28 pipeline projects. Specifically:

- two projects had not been profiled either during the development of recommendations for the Interim Priority List (as neither had originally been submitted for Infrastructure Australia's evaluation) or subsequently. One project was the Moorebank Intermodal Terminal in New South Wales which, as outlined at paragraph 5.10, was added to the list of pipeline projects at the 30 January 2009 Council meeting after the Minister had directed the Infrastructure Coordinator to assume lead responsibility for various processes aimed at facilitating development of this project. The other project, the Bonython Port in South Australia, was submitted by the South Australian Government as part of its October 2008 submission. No profiling assessment or BCR was provided for this project in the submission;
- another project (the Abbot Point Multi-cargo Facility in Queensland) had been assessed by Infrastructure Australia in December 2008 as *Weak* in terms of its strategic fit. No further information was submitted by the proponent after the Interim Priority List was published with the result that a summary of the project and its evaluation was not provided to the Council prior to its 30 January 2009 meeting. At that meeting, the Council asked that progress with Queensland be reviewed by the Office of the Infrastructure Coordinator and the project was subsequently included as a pipeline project, although the Council meeting records do not indicate when this occurred or what advice (if any) was provided by the Office of the Infrastructure Coordinator;<sup>172</sup> and

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<sup>172</sup> The Evaluation Report outlining the Office of the Infrastructure Coordinator's recommendations for the Interim Priority List records that this project was assessed as having a *Satisfactory* economic appraisal.

- the profiling assessment for the remaining 25 projects varied considerably between *Basic* (nine projects), *Good* (12 projects), *Very Good* (two projects) and *Excellent* (two projects).

**5.64** For the Oakajee Port Common-User Services project in Western Australia, the allocated appraisal rating of *Good* had been allocated on the basis of an October 2008 submission. The project summary provided to the Council for its 30 January 2009 meeting did not include any profiling assessment or the results of any economic appraisal. Instead, the Council was advised that:

The Western Australian Government has identified Oakajee – a greenfield site north of Geraldton – as its preferred option for a new port.

The Western Australian Government's original request was for funding for common use facilities at the port for iron ore purposes. The revised submission (January 2009) re-focuses on establishing infrastructure to enable a *multi-user, multi-purpose* port. This will lay the foundations for a future 'Oakajee Industrial Estate' for industrial expansion in the region and expanded, integrated transport infrastructure.

Due to the recent changes to the approach of the submission and the broader focus that it now entails, it has not been possible for the Western Australian Government to undertake a cost-benefit analysis in the form outlined by Infrastructure Australia.

**5.65** At its 30 January 2009 meeting, the Council asked the Office of the Infrastructure Coordinator to undertake further work on this, and four other projects. In February 2010, the Office of the Infrastructure Coordinator advised ANAO that:

The Oakajee Port Development – Common Use Infrastructure proposal was subsequently assessed as not being sufficiently developed to meet the criteria for recommendation as being 'ready to proceed'. It was however assessed as having sufficient potential merit to warrant further consideration,<sup>173</sup> following development of the business case. As a result, it was included in the 'priority pipeline'.

The assessment of the Oakajee Port Development – Common Use Infrastructure proposal will be continued when the Western Australian

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<sup>173</sup> The May 2009 Budget included \$339.0 million for an 'equity injection' for the Oakajee Port Common User Facilities project.

Government provides a copy of the bankable feasibility study currently being finalised by the Oakajee Port Development.

## Economic appraisal

**5.66** The most significant difference between the priority projects and those included on the pipeline related to their economic appraisal. Only 15 (54 per cent) of the projects on the pipeline had a BCR associated with them (see Table 5.2). These ranged from 8.01 to 1.04. For many of these projects, the Office of the Infrastructure Coordinator's assessment was that there was insufficient evidence to support the economic viability of the project. In some instances, this was because the BCRs were assessed as out of date by the Office of the Infrastructure Coordinator.<sup>174</sup> In other instances, the economic analysis was preliminary<sup>175</sup> or inadequate.<sup>176</sup>

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<sup>174</sup> In relation to the Advanced Train Management System project submitted by the ARTC, the Office of the Infrastructure Coordinator concluded that it could not 'come to a firm view on the economic viability of the project' because the proponent had 'not provided material which meets the minimum information requirements'. Of particular note was that the economic appraisal information supplied by the proponent related to an 'out of date' (2006) study with 'very little supporting detail'.

<sup>175</sup> For the Port of Brisbane Motorway, the Office of the Infrastructure Coordinator concluded that the economic analysis to date was robust but preliminary.

<sup>176</sup> For the Northbridge Rail Link project, the Office of the Infrastructure Coordinator concluded that the project needed to be re-analysed using a conventional economic framework.

**Table 5.2****Pipeline projects with a BCR submitted for evaluation by the project proponent that were included in the Final Priority List**

Project (proponent)
Fully Controlled Motorways (QLD)
East-West Rail Freight Corridor (ARTC)
Darwin Port Expansion (NT)
Eastern Busway (Stage 3) (QLD)
Northbridge Rail Link (The Hub) (WA)
Perth Airport Multi-modal links (WA)
Port of Brisbane Motorway Upgrade (QLD)
Northern Connector Road and Rail Corridor (SA)
Mornington Peninsula Connector Road (VIC)
Donnybrook Intermodal Terminal (VIC)
Northern Link Road Tunnel (BCC)
Bell Bay Port Expansion (TAS)
Advanced Train Management System (ARTC)
Abbot Point Multi-Cargo Facility (QLD)
Eastern Busway (Stage 2) (QLD)

Source: ANAO analysis of Office of the Infrastructure Coordinator data.

**5.67** Of the remaining 13 projects on the pipeline, three ‘projects’ involved Infrastructure Australia incorporating one or more elements of applicant submissions, and did not, as a result, have a proponent-submitted BCR associated with the aggregated ‘project’, although some of the individual elements of the ‘package’ created by Infrastructure Australia did have a BCR. Project applicants did not provide BCRs in their submissions for a further ten projects on the pipeline list.

**Table 5.3****Pipeline projects listed in Final Priority List with no Benefit-Cost Ratios**

Project (Proponent)	Comment
Green Triangle Road and Rail Upgrades (SA/VIC)	Range of BCRs provided, which do not align with the costs and scope of the project.
Bonython Port (SA)	BCR not provided by applicant.
Bruce Highway-Abbot Point State Development Area Bypass (QLD)	
Bruce Highway Corridor (Brisbane to Cairns including Cooroy to Curra) (QLD)	
Hastings Port (VIC)	
Melton Duplication and Electrification to Bacchus Marsh (VIC)	
Mount Isa-Townsville Rail Corridor (QLD)	
Moorebank Intermodal Terminal (Commonwealth/NSW)	
Oakajee Port Common User Services (WA)	
Port of Melbourne Freight Terminal (VIC)	
North South Rail Freight Corridors (including Northern Sydney Freight line and various rail deviation projects) (ARTC/NSW)	Amalgamation of projects by Infrastructure Australia.
Brisbane's Future Public Transport Network (including Brisbane Inner City Rail Capacity) (QLD)	
Sydney's Future Public Transport Network (including CBD and West Metro) (NSW)	

Source: ANAO analysis of Infrastructure Australia data.

***Submission by proponents of additional information for analysis***

**5.68** As noted at paragraph 5.2, the proponents of projects included on the Interim Priority List were provided with the opportunity to submit additional economic appraisal information. For all but six<sup>177</sup> of the 94 projects on the Interim Priority List, provision of this information was important as the Office of the Infrastructure Coordinator's December 2008 evaluation had concluded, on the basis of the supporting information submitted to that point in time, that

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<sup>177</sup> See paragraph 4.23.

they did not merit being included on the Interim Priority List. In this respect, of the 28 pipeline projects, 16 had been included in the 28 projects recommended by the Office of the Infrastructure Coordinator on 1 December 2008 as being worthy of inclusion on the Interim Priority List. In respect to 15 of the 16 projects, the proponent submitted updated information to Infrastructure Australia and, in 14 of these instances, the Office of the Infrastructure Coordinator updated its earlier analysis. The two exceptions related to:

- the East-West Rail Freight Corridor project submitted by the ARTC, for which no further information was submitted to Infrastructure Australia. The Office of the Infrastructure Coordinator's December 2008 assessment was that the project involved a *Good* strategic fit and had an *Exceptional* BCR but that more information was required to support the economic appraisal; and
- the Oakajee Port Common-User Services project discussed at paragraphs 5.64 and 5.65.<sup>178</sup>

**5.69** Of the 12 pipeline projects in the Final Priority List that had not been recommended by the Office of the Infrastructure Coordinator for inclusion on the Interim Priority List, one submitted further information which led to the Office of the Infrastructure Coordinator updating its assessment but this did not result in a clear assessment that there was a robust economic appraisal to support funding for construction. Specifically, the Northern Link Road Tunnel proposed by Brisbane City Council. The BCR originally submitted for this project was below 1.5 with the Office of the Infrastructure Coordinator's Interim Priority List evaluation assessing the BCR as *Poor*. At its 30 January 2009 meeting,<sup>179</sup> the Council asked the Office of the Infrastructure Coordinator to undertake further work on this project (and four other projects) and, at its

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<sup>178</sup> The Office of the Infrastructure Coordinator's earlier assessment had rated the project highly both in respect to its strategic fit and economic appraisal but did not undertake a deliverability assessment because it was not sufficiently well advanced to be examined in terms of their deliverability risks. In addition, the Office of the Infrastructure Coordinator had considered this project better suited to private sector funding.

<sup>179</sup> The Council meeting was informed by an Office of the Infrastructure Coordinator assessment which outlined that the economic assessment was 'broadly robust and comparable with other projects submitted to Infrastructure Australia' but that there was a concern the project was 'unlikely to be economically viable' because the claimed BCR was likely to be overstated.

27 February 2009 meeting, the Council decided to include this project in the 'pipeline'.<sup>180</sup>

**5.70** The remaining eleven projects, despite not having provided any further information to inform any change to the Office of the Infrastructure Coordinator's 1 December 2008 assessment that they were not sufficiently well advanced to meet the established criteria for inclusion on the Interim Priority List, were, nevertheless, included in the Final Priority List as pipeline projects. Of these projects:

- five were port-related initiatives (the Abbot Point Multi-Cargo Facility in Queensland, Bonython Port in South Australia, Hastings Port in Victoria, Bruce Highway-Abbot Point State Development Area Bypass in Queensland and the Port of Melbourne freight terminal.) For the Abbot Point Multi-Cargo Facility project (which, as noted at paragraph 5.63, had been assessed as having a *Weak* strategic fit), the proponent had submitted a BCR which the Office of the Infrastructure Coordinator had assessed in 2008 as being *Satisfactory*. However, in respect to the other four projects, no BCR was submitted for Infrastructure Australia to evaluate; and
- two were intermodal terminal projects (Donnybrook Intermodal Terminal in Victoria and Moorebank Intermodal Terminal in Sydney). The former had been submitted for assessment as part of the Interim Priority List process, with the Office of the Infrastructure Coordinator assessing that the claimed BCR was *Satisfactory*, albeit with concerns it was possibly overstated. The Moorebank project had not been the subject of a submission to the development of the Interim Priority List and so had not been assessed by the Office of the Infrastructure Coordinator. As outlined at paragraph 5.10, it was added to the Final Priority List at the 30 January 2009 Council meeting after the Minister had directed the Infrastructure Coordinator to assume lead

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<sup>180</sup> In February 2010, the Office of the Infrastructure Coordinator advised ANAO that, following the Council's request at the 30 January 2009 meeting, 'The Northern Link initiative was subsequently assessed as not being sufficiently developed to meet the criteria for recommendation as being "ready to proceed". In particular, questions were raised about aspects of the economic appraisal (for example, Vehicle Operating Costs). It was however assessed as having sufficient potential merit to warrant further consideration, following development of the business case. As a result, it was included in the "priority pipeline".'

responsibility for various processes aimed at facilitating development of this project.

**5.71** The other projects were: the Bruce Highway Corridor (Brisbane to Cairns including Cooroy to Curra) in Queensland, the Mount-Isa Townsville Rail Corridor in Queensland, the Queensland Government's 'Brisbane Future Public Transport Network (including Brisbane Inner City Rail Capacity)' initiative<sup>181</sup> and the Melton Duplication and Electrification to Bacchus Marsh project in Victoria. For the first of these projects, BCRs for various sections were submitted to Infrastructure Australia as part of the process of developing the Interim Priority List with an economic appraisal rating of *Poor* arrived at. In respect to the remaining projects, the original submissions to Infrastructure Australia did not include a BCR for evaluation.

**5.72** Overall, the above analysis highlights that, for projects other than those seen as ready to proceed:

- the December 2008 request to proponents that they provide information to support an economic appraisal by the Office of the Infrastructure Coordinator as well as a deliverability assessment was unsuccessful in significantly improving the information available to inform the development of the Final Priority List;<sup>182</sup>
- proponents either had not yet undertaken economic analysis to assess the merits of the project, or chose not to provide this information to Infrastructure Australia for analysis; and
- the project pipeline is largely comprised of projects which either had not submitted a BCR for the Office of the Infrastructure Coordinator's evaluation, or where the Office of the Infrastructure Coordinator's evaluation had identified shortcomings in the BCR.

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<sup>181</sup> Brisbane's Future Public Transport Network was not an identifiable 'project' submitted by a proponent. Rather, the submitted project was the Inner City Rail Capacity project. The scope of Inner City Rail Capacity in the submission was the future construction of two rail tunnel corridors (south to north corridor line and the west to north corridor line). The projects were at a stage where funding was sought for a detailed feasibility study, planning and land acquisition.

<sup>182</sup> In June 2010, the Chair of the Council informed ANAO that the Council's view was that the fact that many of the projects included in the Interim List had not provided further information by a certain time did not mean that the concept of an expanded list was not appropriate.

## Recommendation No.2

5.73 In light of the important role Infrastructure Australia seeks to play in promoting best practice infrastructure planning and decision-making, ANAO recommends that future prioritisation processes include information in the published guidance on 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 considered for possible funding.

### *Infrastructure Australia response*

5.74 Infrastructure Australia agreed with the recommendation.

## Funding of projects on the Final Priority List

5.75 The May 2008 Budget Papers included commentary on the scope for improved policy and institutional frameworks for infrastructure investment, and investment in skills and training, as these were seen as areas where there was significant scope to lift Australia's productive capacity. Of direct relevance to the work of Infrastructure Australia, in this statement, the Government:<sup>183</sup>

- recognised that, where governments invest in infrastructure assets, it is essential that they seek to achieve maximum economic and social benefits, determined through rigorous cost-benefit analysis including evaluation and review;
- stated that only public infrastructure projects which at least meet a minimum benchmark social rate of return—determined through rigorous cost-benefit analysis, including evaluation and review—should be funded, and relative social rates of return above the minimum benchmark should be used to prioritise the funding of projects;
- committed to efficient public infrastructure investment through the development of coordinated, objective and transparent processes for

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<sup>183</sup> Budget Paper No. 1 2008–09, *Budget Strategy and Outlook*, circulated by The Honourable Wayne Swan MP, Treasurer of the Commonwealth of Australia and The Honourable Lindsay Tanner MP, Minister for Finance and Deregulation of the Commonwealth of Australia for the information of Honourable Members on the occasion of the Budget 2008–09, 13 May 2008, pp. 4–6, 4–13 and 4–15.

decision-making based on thorough and rigorous cost-benefit analysis. Key elements of such an approach were seen as including decision-making based on rigorous cost-benefit analysis to ensure the highest economic and social benefits to the nation over the long-term and a commitment to transparency at all stages of the decision-making process; and

- outlined that Infrastructure Australia had been established to improve processes around the assessment of infrastructure investment decisions. Specifically, the Budget Papers stated that:

To improve processes around the assessment of infrastructure investment decisions, the Australian Government established Infrastructure Australia to advise governments on nationally significant infrastructure. Infrastructure Australia's advice will be based on rigorous analysis of the costs and benefits of various infrastructure proposals. Infrastructure Australia will identify strategic investment priorities and policy and regulatory reforms to facilitate timely and coordinated delivery of infrastructure investments of national importance between all levels of government and industry. Infrastructure Australia's immediate priority is to complete a National Infrastructure Audit by the end of 2008, and develop an Infrastructure Priority List for COAG consideration in March 2009. It is also to develop best practice guidelines for Public Private Partnerships for COAG consideration by October 2008.<sup>184</sup>

**5.76** The Infrastructure Australia Act states that Infrastructure Australia's primary function is to provide advice on a range of infrastructure issues. Infrastructure Australia does not have responsibility for determining or allocating funding for infrastructure projects. Nevertheless, the Final Priority List was intended to play an important role in Government funding decisions.

**5.77** In terms of Infrastructure Australia's participation in the decision-making process for Government funding decisions, in February 2010 the Office of the Infrastructure Coordinator advised ANAO that:

Briefings were held with the Department of Infrastructure, Transport, Regional Development and Local Government including:

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<sup>184</sup> Budget Paper No. 1 2008–09, *Budget Strategy and Outlook*, circulated by The Honourable Wayne Swan MP, Treasurer of the Commonwealth of Australia and The Honourable Lindsay Tanner MP, Minister for Finance and Deregulation of the Commonwealth of Australia for the information of Honourable Members on the occasion of the Budget 2008–09, 13 May 2008, p. 4–13.

- early February: draft Cabinet briefs on the then draft priority projects [were] provided to the Department;
- early April: two officers from the Department came to Infrastructure Australia's offices for a number of days and were given open access to submissions – we assisted in explaining any questions;
- post Budget: a number of officers from the Infrastructure Investment Business Division were provided submission material relating to Budget funded projects – they were also given open access to folders and submissions and invited back if need be; and
- additional material was requested and forwarded to the Department relating to the Northbridge project and Major Cities Unit's material on the O'Bahn project (which was not part of the Infrastructure Australia process).

## Priority projects

5.78 The Final Priority List included nine priority projects that the Council had concluded should be considered for Australian Government funding.<sup>185</sup> As noted above, seven of the nine priority projects were announced in the May 2009 Budget to receive full or partial funding, with the Budget Papers noting that each of the seven projects had been recommended by the Infrastructure Australia Council for funding. The Budget announcements of projects recommended for funding by the Infrastructure Australia Council were categorised into:

- major rail projects—\$3.9 billion over six years. However, one of the five projects<sup>186</sup> that were said to have been recommended by Infrastructure Australia (the New South Wales Government's West Metro project) had not been included as a priority project but as a pipeline project such that, at the time of the Budget, Infrastructure Australia had not recommended that it should be considered for funding;

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<sup>185</sup> Infrastructure Australia, *National Infrastructure Priorities: Infrastructure for an economically, socially and environmentally sustainable future*, May 2009, p. 8.

<sup>186</sup> Being: \$91 million towards preconstruction work on the New South Wales Government's West Metro project; the Victorian Government's Regional Rail Express project—\$3.225 billion over six years, and East-West Rail Tunnel project—\$40 million over two years; and the South Australian Government's Gawler Rail Line Upgrades project—\$293.5 million over five years, and Seaford Rail Extension project—\$291.2 million over five years.

- three road projects. Of these one was the Ipswich Motorway which had not been included as a priority project in the Final Priority List but had been included because Infrastructure Australia had concluded that increased project costs<sup>187</sup> could be met through the Building Australia Fund. The other two involved full funding of one priority project (the New South Wales Government's F3 to Branxton Freeway, now referred to as the Hunter Expressway) and partial funding of another New South Wales Government project (the Pacific Highway Corridor); and
- a possible equity contribution of \$365 million in 2009–10 in relation to the Gold Coast Light Rail project, subject to negotiations with the project proponents and the establishment of an appropriate equity vehicle.

**5.79** As noted at paragraph 5.59, the Pacific Highway Corridor project was included as a priority project late in the process (at the Council's 27 March 2009 meeting). The project was put forward by the New South Wales Government, as part of its October 2008 submission to Infrastructure Australia. This submission proposed completion of the Pacific Highway upgrade between Hexham and the Queensland border. It comprised eight separate projects, with an estimate totaling \$6.67 billion. No additional information was provided on the project following the October 2008 submission, with the Office of the Infrastructure Coordinator advising ANAO in February 2010 that it considered that there was sufficient material to make an assessment of the proposal (in December 2008 it was assessed as having a *Satisfactory* BCR). The Final Priority List did not make any recommendations whether the Corridor project should be funded in stages or, if so, which works were seen as the highest priority.

**5.80** Contemporaneous with the Infrastructure Australia process, commencing in January 2009, DITRDLG had sought information from the New South Wales Roads and Traffic Authority concerning the likely cost and timeframe for delivering the Kempsey Bypass. The Kempsey bypass formed a

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<sup>187</sup> The Budget Papers stated that the \$884 million for this project was to go towards additional works on the construction of eight kilometres of the Ipswich Motorway between Dinmore and Goodna, and 2.5 kilometres between Wacol and Darra; and planning for the Ipswich Motorway between Darra and Rocklea. However, as outlined at paragraph 5.51, Infrastructure Australia's assessment of funding for this project through the Building Australia Fund did not relate to additional works but to funding of an increase in the estimate of the cost to undertake the project.

section of one of the eight projects (the Kempsey to Eungai project) included in the Pacific Highway Upgrade project submitted in October 2008 to Infrastructure Australia by the New South Wales Government, although the submission did not separate out an estimate for the Kempsey bypass. The New South Wales Government submission indicated that construction of two of the eight projects (including the Kempsey to Eungai project) could commence in 2009, with the remainder to be progressively commenced as permitted by resources and progress on land acquisition. The May 2009 Budget included \$618 million<sup>188</sup> for the Kempsey Bypass.

## Pipeline projects

**5.81** Infrastructure Australia's May 2009 document incorporating the Final Priority List stated that the pipeline projects had not yet demonstrated their economic viability (through the economic appraisal process including having a BCR above 1) nor had they demonstrated robust delivery mechanisms that would ensure they could be successfully implemented. Accordingly, the May 2009 document advised that:

for these 28 projects, further project development and analysis is required before Infrastructure Australia can make a final recommendation, because:

- there is insufficient information to make a robust assessment at this stage, and/or
- the quality of analysis is not robust enough to form a solid basis for judgement, and/or
- there is a timing issue.

Infrastructure Australia recommends that these 28 projects form a "pipeline" of projects for further analysis and consideration. Infrastructure Australia will now work intensively with proponents to develop robust economic and delivery analysis. This further work is required before Infrastructure Australia can provide definitive funding assessment advice. A number of projects need to be taken to the next stage of business case and detailed design development before Infrastructure Australia can make a more definitive and robust

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<sup>188</sup> The available information is that the estimate of \$618 million in the May 2009 Budget comprised the total estimated out-turn cost less amounts spent on the project prior to 2008–09 and amounts that had been proposed to be spent on the project in 2008–09 (but were not actually spent).

economic and delivery analysis of these projects. Governments and private investors need to undertake more detailed design and feasibility assessment before definitive funding decisions can be considered by governments and private investors.

**5.82** However, prior to the Final Priority List being published, the Government had committed funding in relation to two of the pipeline projects included on the Final Priority List. Specifically:

- in December 2008,<sup>189</sup> the Government announced \$45 million towards Phase 2 of the ARTC's Advanced Train Management System, involving a trial of the technology on a section of track in South Australia; and
- the May 2009 *Nation Building for the Future* document announced that the Budget funding:

builds on the Government's commitments, through the Nation Building Program, to expand capacity and relieve bottlenecks around New South Wales export infrastructure by investing ... \$300 million to develop an inter-modal terminal at Moorebank in south-west Sydney.<sup>190</sup>

**5.83** In addition, six of the 28 pipeline projects were announced in the May 2009 Budget to receive funding (see Table 5.4). With the exception of the West Metro project (see paragraph 5.78), the Budget Papers did not suggest that these projects had been recommended for funding by Infrastructure Australia.

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<sup>189</sup> *Nation Building: Rail, Road, Education & Research and Business*, Statement by the Honourable Kevin Rudd MP, Prime Minister, the Honourable Julia Gillard MP, Deputy Prime Minister and Minister for Education, Employment, Workplace Relations and Social Inclusion, the Honourable Wayne Swan MP, Treasurer and the Honourable Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, 12 December 2008, p. 49.

<sup>190</sup> The May 2010 Budget included \$70.7 million over two years for the development of comprehensive business cases, designs, approvals and an implementation strategy for the development of an intermodal transport hub at Moorebank, and the relocation of the Department of Defence's School of Military Engineering from Moorebank to Holsworthy. The Budget Papers stated that the \$70.7 million would come from funds already set aside in the Nation Building program for NSW for the development of an intermodal terminal precinct at Moorebank.

**Table 5.4**

**Pipeline projects announced for funding in the May 2009 Budget**

Project	Budget Funding	Infrastructure Australia evaluation
Cooroy to Curra component of the Bruce Highway Corridor (Brisbane to Cairns)—Queensland Government	\$488 million over four years towards the duplication of a 12 kilometre section between Cooroy and Curra to provide a four-lane divided highway.	Not sufficiently developed to meet the criteria for recommendation as ready to proceed. Assessed as having sufficient potential to warrant further consideration following development of the business case.
Northbridge Rail Link (The Hub)—Western Australian Government	\$236 million over six years towards the sinking of the central city section of the Perth-Fremantle railway line and construction of a new rail platform so as to make new land available to develop above the rail line as the first stage required for The Hub urban redevelopment project.	
Oakajee Port Common-Use Services—Western Australian Government	Provision for possible \$339 million equity contribution in relation to development of common use port components, including maritime and land-based facilities such as the breakwater, turning basin, channel, navigational aids, and port administration offices.	
Darwin Port Expansion—Northern Territory Government	Provision for possible \$50 million equity contribution for land reclamation, a second rail dump and a new berth, ship loader and conveyor equipment, to deliver improved traffic management to the Port of Darwin and the Alice Springs to Darwin railhead.	
West Metro—New South Wales Government	\$91 million towards engineering and design work to further develop the project.	There were 'substantial questions' about the economic viability of the project given: the proponent had claimed a BCR of 1.0; and Infrastructure Australia had raised questions about the way in which the BCR had been calculated.

Project	Budget Funding	Infrastructure Australia evaluation
Brisbane Inner City Rail Capacity component of the Brisbane's Future Public Transport Network—Queensland Government	\$20.0 million towards a detailed feasibility study of additional river-crossing capacity and cross-city capacity for the provision of a rail loop that services the major stops north and south of the Brisbane River to cater for future growth.	The scope of Inner City Rail Capacity in the submission to Infrastructure Australia was the future construction of two rail tunnel corridors. The projects were at a stage where funding was sought for a detailed feasibility study, planning and land acquisition. As no BCR information was submitted, Infrastructure Australia did not undertake an economic appraisal.

Source: ANAO analysis of Budget Papers and Office of the Infrastructure Coordinator data.

**5.84** Further funding for pipeline projects was announced in the May 2010 Budget. Specifically, the Final Priority List had also included two pipeline projects relating to rail line construction works submitted by the ARTC (specifically, the 'East-West Rail Freight Corridor' and 'North-South Rail Freight Corridors (including Northern Sydney Freight line and various rail deviation projects)'). The May 2010 Budget included equity funding of \$996 million over three years to the ARTC for:

a package of productivity enhancing projects across Australia that will help strengthen the interstate freight rail network and secure its competitiveness over the longer term. Work will include providing stronger steel rail, more concrete sleepers, upgrading rail bridges and culverts, new passing loops and other associated rail infrastructure works.

These projects will help improve the reliability, performance and capacity of ARTC's network to deliver significant productivity benefits and improve safety on the interstate network. The regional areas through which the network travels stand to gain significantly through the creation and support of local jobs and economic activity.

The package will deliver improvements for freight rail infrastructure on the North-South and East-West rail corridors, which are national infrastructure priorities.<sup>191</sup>

**5.85** The inclusion of pipeline projects in the Final Priority List meant it was important the advice to the Government provide sufficiently clear advice on Infrastructure Australia's recommendations as to the further action that was needed before funding should be considered. For example, the Budget announced that provision for equity injections in relation to the projects at Darwin and Oakajee ports had been made 'pending recommendation of the projects by Infrastructure Australia, negotiations with the project proponents and the establishment of an appropriate equity vehicle'. A recommendation from Infrastructure Australia was necessary for these two projects as the Budget announced that funding would come from the Building Australia Fund. In February 2010, Infrastructure Australia advised ANAO of further work it was undertaking to assess each of these two projects:

- the assessment of the Oakajee Port Development – Common Use Infrastructure proposal will be continued when the Western Australian Government provides Infrastructure Australia with a copy of the 'bankable' feasibility study that was being finalised; and
- for the Darwin Port expansion, assessment of the proposal was continuing with updated information having been received from the Northern Territory Government, although Infrastructure Australia had not been advised of the source of the balance of funds required for the project (being some \$275 million).

**5.86** Similarly, the Budget funding announced for the West Metro project was for engineering and design work to further develop the project and the funding for the Brisbane Inner City Rail Capacity component of the Brisbane's Future Public Transport Network was to go towards a feasibility study. By way of comparison, without any further assessment being required from Infrastructure Australia, the Budget included construction funding for the

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<sup>191</sup> Budget 2010–11, *Skills and Infrastructure – Building a Stronger and Fairer Australia*, Statement by the Honourable Julia Gillard MP, Minister for Education, Minister for Employment and Workplace Relations, Minister for Social Inclusion and the Honourable Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, 11 May 2010, p. 28.

Cooroy to Curra component of the Bruce Highway Corridor (Brisbane to Cairns) project<sup>192</sup> and the Northbridge Rail Link in Western Australia.

**5.87** In addition, the experience with the West Metro project highlights the increased risks that are involved in funding projects that have not yet demonstrated their economic viability. In this respect, the project summaries provided by the Office of the Infrastructure Coordinator to the Council at its 30 January 2009 meeting recorded that the New South Wales Government's CBD Metro and West Metro projects had both been assessed as *Very Good* in terms of their strategic fit but that there were 'substantial questions' about the economic viability of both projects given neither had a claimed BCR above 1.0.<sup>193</sup> In February 2010 the New South Wales Government announced that construction would not proceed in respect to either the CBD Metro or West Metro projects.

### Recommendation No.3

**5.88** ANAO recommends that Infrastructure Australia, where reporting the results of future infrastructure project prioritisation processes, provide clear advice on:

- (a) the relative priority of projects recommended for funding consideration having regard to the results of its appraisal of their economic merits and other factors taken into account in the prioritisation process;
- (b) the level and form of Commonwealth funding it recommends for priority projects that are ready to proceed, together with any conditions it suggests should be attached to this funding; and

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<sup>192</sup> The Office of the Infrastructure Coordinator's December 2008 evaluation for the Interim Priority List had rated this project as having a *Poor* BCR. No additional information was submitted to Infrastructure Australia in January 2009. In terms of its inclusion on the project pipeline, in February 2010 the Office of the Infrastructure Coordinator advised ANAO that: 'Infrastructure Australia has announced its intention to develop a National Freight Network Strategy. The Bruce Highway has the potential to be part of a long-term east coast road freight network. However, the Bruce Highway Upgrade (Cooroy to Curra) proposal was assessed as not being sufficiently developed to meet the criteria for recommendation as being "ready to proceed". It was however assessed as having sufficient potential merit to warrant further consideration, following the development of the business case. As a result, it was included in the "priority pipeline".'

<sup>193</sup> In each instance, the assessment noted that there were also questions about the way in which the BCRs had been calculated such that the claimed BCRs may have been overstated.

- (c) any other projects it would support being considered for planning and/or design work funding.

*Infrastructure Australia response*

5.89 Infrastructure Australia agreed with part (a) and part (c) and agreed with qualification with part (b). In respect to part (b), Infrastructure Australia commented that:

While we agree that making the case for public funding and its exact form is important, the split between jurisdictions will be influenced by a wide variety of factors. Funding is obviously a matter for the Government to decide taking into account these factors in considering competing budget priorities.

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Ian McPhee  
Auditor-General

Canberra ACT  
23 July 2010

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