

Business
Council of
Australia



Business Council of Australia

Recommendation to

The Council of Australian Governments (COAG) for
A National State of the Nation Infrastructure Audit

August 2005



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1. The Purpose of the BCA's Recommendation

In its March 2005 report, *Infrastructure Action Plan for Future Prosperity*, the Business Council of Australia (BCA) urged that Australian Governments undertake a regular audit of Australia's infrastructure. This suggestion was part of a package of proposals surrounding the need for a new Council of Australian Governments (COAG) infrastructure reform agenda.

The Federal Government's Exports and Infrastructure Taskforce that recently reported to the Prime Minister also recommended that such an audit be undertaken.

This recommendation from the BCA builds on that work. It has a twofold purpose and seeks to explain:

- The details of what such an audit would cover; and
- Why it is necessary and therefore, why Australia would benefit from its implementation.

2. Background to the BCA's Recommendation

The BCA's recent program of research and advocacy has been targeted at measures to lock in Australia's future prosperity. The BCA's most recent work, *Locking in or Losing Prosperity: Australia's Choice* uses analysis by Access Economics to show the large community benefits from achieving high growth (4 per cent per annum) rather than that likely under a business as usual scenario (2.4 per cent per annum) over the next 20 years.

The BCA wants to ensure that Australia's infrastructure contributes to, and is not a constraint on, achieving continuing high growth. The BCA's *Infrastructure Action Plan* illustrated how improved infrastructure performance could contribute to continued high Australian productivity and therefore growth.

It is equally important, however, that Australia's infrastructure has the capacity to accommodate sustained high growth. It would be extremely unfortunate if the other preconditions for high growth were in place but Australia's roads and rail lines, electricity generation and transmission lines, or our rural and urban water supplies, acted as a constraint on this outcome.

The BCA is urging a forward-looking approach where, whatever views there may be on the current state of Australia's infrastructure, Australia can be confident that our future infrastructure can deliver what is expected of it.



3. Overview of the State of the Nation Infrastructure Audit

The proposed audit would essentially be a ‘performance and policy’ audit. It would focus on performance outcomes, the supply and demand balance and impediments to the required investment, rather than a physical assessment of whether what is there meets particular specifications. The audit would assess our infrastructure on the basis of ‘fit for purpose’ by being focused on outcomes, not inputs.

Consistent with this methodology it is recommended the Productivity Commission is the most appropriate body to conduct the audit. The Commission has the required expertise and breadth of focus for this task. It would also be able to commission work from others as appropriate (see below).

The audit should be conducted every two years. If it were less frequent, the impact and focus on these issues would be lost. If it was more frequent, there may be insufficient new developments to warrant the effort.

In the COAG Communiqué of 3 June 2005 there was agreement in principle on “each jurisdiction providing a report to COAG every five years on infrastructure”. However, the BCA believes that if the audit were conducted only every five years there would be no impetus to address the issues raised. There would then be too much time between then and the next audit to illustrate the progress made on issues identified in the previous audit.

The BCA believes that a State of the Nation audit conducted every two years will be more efficient, productive and results-based. Once the initial audit is completed the subsequent audits will be easier to complete as they would update already established information and target priority areas for more detailed analysis.

It is envisaged that the State of the Nation audit would address the following.

- *Is the current supply of infrastructure adequate to meet demand, now and in the foreseeable future?* Most of this work would be undertaken by the responsible entities against frameworks supplied by the Productivity Commission.
- *How is the infrastructure performing based on particular indicators?* These could cover such issues as rail speed restrictions and electricity network reliability. Again, this information can be sourced by the responsible entities.
- *Are there any impediments to the required spend needed to increase investment or operational performance being provided in a timely fashion, or any form of distortion to appropriate decision making?* These may arise due to Government policy, planning and regulatory issues, unclear accountability for infrastructure planning and performance, or other issues to do with work practices.



For example, the audit could highlight the impediments to investment in electricity transmission in the form of the current regulatory test and through the various planning processes.

- *Are appropriate service standards being set and regularly monitored for monopoly infrastructure?* It is often difficult for the public (and indeed regulators) to assess infrastructure performance and the need for expenditure because the level of service that is meant to be provided is not made explicit.
- *Is the data that is needed being collected and made available?* The Productivity Commission will quickly identify where data is inadequate for an effective audit. In some cases, for example, the data on the supply and demand balance or to monitor performance may not be being collected.
- *Are there any problems caused by inadequate attention being paid to externalities?* Within the infrastructure sector such considerations can be very important. They may be factored into some investment decisions and not into others in ways that cause significant distortion. As an illustration, consideration of investments in road and rail needs to factor in the relative impact each has on the level and cost of accidents.
- *Is international experience relevant to Australia's infrastructure performance and pricing?* It is not intended that international benchmarks be pursued as a general rule. There will be occasions, however, when this may be relevant such as overseas pricing and demand responses, or overseas approaches to particular issues.
- *Are there any immediate investment priorities that require focus?* It could be, for example, that clear gaps in investment planning can be discovered, or that projects with very high benefit/cost ratios keep being left out of investment plans for whatever reason.

There are some obvious sectors that would be included in the audit. It should cover electricity, gas, urban and rural water, urban and rural land transport and ports. Sectors such as communications and aviation could also be included but may be better excluded initially given other studies underway.

The audit would not cover health and education. While these areas may fit within some definitions of infrastructure they do not fit within most definitions, and they risk widening the scope of the audit to the point that it becomes unmanageable.

The BCA foresees one State of the Nation audit covering all the sectors mentioned, rather than separate audits conducted sequentially. The BCA's approach facilitates a consistent methodology, and judgments about the key focus areas and the priority concerns to address.



The audit should provide recommendations for action where appropriate. As implied from what has been mentioned above, these could cover:

- action to address impediments to investment or the action required to increase performance;
- investment priorities to address particular gaps or performance issues;
- the need for the collection of certain data; and
- recommendations on how decision making or overall infrastructure planning across all jurisdictions could be improved.

It is envisaged that the audit would be made public by the Productivity Commission as soon as it is completed. It would also be considered by COAG as a vital guide to whether particular reform measures are working.

4. Why a State of the Nation Infrastructure Audit is Required

Functioning infrastructure is fundamental to the health of any economy. However, there are a number of concerns that would be directly addressed by the type of audit the BCA proposes:

- Accountability for infrastructure provision is often unclear. When this is the case there is a greater need for a process that can identify any issues that may have fallen through the cracks. Sometimes, accountability is unclear between the Commonwealth, State and Local Governments; for example in road construction in certain localities. Other times accountability is unclear between the public and private sectors; for example, in electricity generation or rail line construction.
- In some areas of infrastructure the benefits arising from it cannot be all captured by the provider through service charges (so called 'externalities'), which requires some role for Governments to ensure that adequate infrastructure is available. These externalities need to be transparent to ensure the appropriate focus and handling of them. Many infrastructure concerns can be linked to a poor understanding of the nature and extent of externalities.
- A lack of consistent and consolidated data exists detailing the current state of Australia's infrastructure. If Australia is to rely on its infrastructure as a fundamental aspect of the health of its economy it needs to fully understand its current state.



- There are a number of initiatives underway that need a clear ‘baseline’ or set of indicators against which performance can be judged. Governments and the community need to be sure that money spent, policy changes or other measures are having the intended effect. Programs need to be measured on improved outcomes, not just on the basis of particular steps being taken.
- There are clear current gaps in Australia’s current infrastructure provision that, with greater focus, may not have occurred. Crisis situations such as the current water supply levels in our cities; the current level of wastage of our urban and rural water; the unnecessarily long travel times for certain rail journeys; and the poor land transport and port links in many areas.

The above list of concerns that would be addressed by a two-yearly State of the Nation infrastructure audit may not be complete, but it is already compelling. Such an audit would provide the impetus for better quality infrastructure provision and performance.

The logic is such that the benefits of such an exercise would clearly outweigh the associated costs. The only concern by Governments may be that it could increase accountability – which is what an audit sets out to achieve.

The business approach to such issues is to highlight them so that they can be addressed. The BCA urges Governments to adopt such an approach in this vital area.

While the COAG suggestion for a five-yearly report is a step toward addressing this important issue, the detail behind such an idea is unclear and it would not include the detail necessary that the State of the Nation audit urges. It would not be holistic, coming individually from each jurisdiction. As a result, key items would be missed; there would not be sufficient consistency; objectivity would be lacking, or at least seen to be lacking, and it would be too infrequent to result in sufficient progress being made.

5. Perspectives on the Approach to the Infrastructure Audit

As already stated, the BCA recommends the audit be conducted by the Productivity Commission. The Commission would bring the appropriate approach, expertise and required standing in the community.

The BCA foresees the Commission providing the required reporting frameworks, and then seeking the audit data, particularly on supply and demand balance, and performance from relevant entities who in their normal course of business would be producing this.

The Commission could then assess the adequacy of the data and comment on its appropriateness for decision making. In this way the Commission would not be replacing the role of the current responsible infrastructure entities or creating a new bureaucracy to do what is (or should be) being undertaken anyway.



The BCA also recommends that the Commission would:

- review the available information and reports;
- specify the required information and seek this from the responsible entities;
- interview selected infrastructure providers, users, policy makers and regulators;
- seek submissions from interested parties in response to a well-targeted “issues paper”;
- analyse the data received and undertake further targeted research as appropriate; and
- commission specialist research or seek information as required from such sector-specific organisations such as the Bureau of Transport and Regional Economics or the National Electricity Market Management Company (NEMMCO).

Further to this, the BCA would urge that work on the State of the Nation audit be completed over eight to nine months initially, and then six months for each follow up audit. The work should be time limited, with the areas of main focus determined by where the largest boost (or constraint) to productivity and competitiveness is likely to occur.

Such an approach will provide the required input in an efficient way. It will allow the Commission to focus on some areas more than others depending on the perceived need and the available time. Over time considerable knowledge and data would be acquired that would greatly assist subsequent audits. This is the benefit of having one organisation conduct the audit on a continuing basis.

6. Examples of Likely Output

To provide a further indication of what is intended it is worth mentioning a part of the likely output for some sectors. This will illustrate the likely breadth and benefit of the audit but is only a small part of the intended output. Ultimately, decisions will need to be made as to which focus areas will provide the most benefit, based on the main economic performance drivers.

It will be apparent that some of the items mentioned below are already publicly available in some form. The idea with the State of the Nation audit to bring the information together and to draw out the important implications from it.



Likely electricity key focus areas

- Likely supply and demand scenarios for generation.
- The likely growth in both average and peak demand.
- Transmission constraint levels and their effect.
- Network faults and reliability.
- The responsiveness of demand to prices.
- Investment impediments due to policy settings, regulatory hurdles and planning issues.
- International comparisons with prices in each State or Territory to assess Australia's continuing energy competitiveness.

Likely water key focus areas

- Likely supply and demand scenarios for urban water.
- The extent and nature of system leakage or other wastage in urban and rural areas.
- The extent of physical water restrictions.
- Comparisons of prices (and pricing approaches) and demand between jurisdictions and with international experience.
- The extent and ease of water trading, and continuing impediments to this;
- Salinity and other measures of river health.
- Impediments to the required investment, or to improving operational performance.

Likely land transport key focus areas

- Levels and trends in traffic congestion in urban areas and projections based on certain scenarios.
- Reliability, availability and travel times for particular rail and road freight journeys.
- The level and extent of speed restrictions on rail lines.
- Impediments to the required investments, or to improving operational performance.



7. Concluding Comments

There are some key factors that often differentiate the success of businesses:

- A clear view of what the business is seeking to achieve;
- stretching targets for performance with clear accountability assigned;
- the transparent measurement of outcomes; and
- important consequences if objectives are not achieved.

The BCA's State of the Nation audit would help bring some of these essential business disciplines to this important feature underpinning Australia's economic performance.

The BCA recognises that undertaking the audit described in this submission is politically difficult for Governments. The transparent measurement of outcomes is easier for businesses to cope with than Governments, as Governments face greater scrutiny and calls to meet a wider range of objectives.

The BCA is, however, urging Governments to take this path of a State of the Nation audit because the benefits of transparency and early problem identification will ultimately assist the Governments themselves as well as the broader community.

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