Delivering better business cases to realise more value from our infrastructure investments

INTRODUCTION

Traditionally infrastructure projects have been valued and assessed using methods which often do not best leverage all benefits and opportunities, or fully evaluate all costs. In addition, it has been quite common for infrastructure project proposals to be poorly communicated to the wider community, eroding social and political license and capital.

In this context, and as government policy attempts to meet the challenges of population growth, climate and demographic change, constrained budgets and funding challenges, the role of broader cost benefit analysis and business case assessment is increasingly coming under scrutiny.

The findings and recommendations synthesised in this paper are based on a series of roundtable discussions conducted in Sydney, Brisbane, Melbourne, Canberra and Perth from 2016-2017. Over 50 key decision makers from across government departments, agencies and industry were asked to share their views on the challenges associated with developing business cases for infrastructure projects across Australia. The discussions facilitated a range of views on the opportunities for government to support policy reform that would deliver better business cases, and ultimately better infrastructure and improved outcomes for the tax payer.

These findings and our twelve recommendations provide a rare insight across all levels of government across Australia as to what practical interventions can be delivered today and in the longer-term to achieve a better bang for our buck from our infrastructure spend.
FINDINGS AND RECOMMENDATIONS

Some of these findings will be familiar to infrastructure policy and decision makers, and to varying degrees can be found in numerous publications considering infrastructure funding and decision making in recent years.

The work of Infrastructure Australia, Infrastructure New South Wales, Infrastructure Victoria, Building Queensland, and many recent government inquiries, including the Productivity Commission Inquiry into Public Infrastructure, the House of Representatives Inquiry into Infrastructure Planning and Procurement and the Australian Infrastructure Audit all addressed these and related issues in some detail. ASBEC picked up many of these and other recommendations in the Pathway to Productive and Sustainable Infrastructure Workshop Report released in 2015, which advocated an integrated strategic approach to infrastructure prioritisation and delivery.

More specific findings, particularly in relation to business case methodologies and public communication of cost benefit ratios, are synthesised here alongside these broader findings and together present a powerful case for reform across four broad areas of focus:

1. **Leading with bipartisan vision across all levels of government**
2. **Improving infrastructure decision making**
3. **Understanding the method (and the madness) of business case development**
4. **Engaging the public in the benefits of their infrastructure investment**

Taken together, these findings improve our understanding specifically of the challenges in developing better business cases for infrastructure, create new impetus for reform, and inform our twelve recommendations for the leadership and actions that must now follow.

1 LEADING WITH VISION

‘Departments have more plans than they need: the gap in policy is vision.’

Findings:

A consistent, clear, long-term vision for our cities and communities, supported by decision-makers and informed by effective community engagement, is a fundamental pre-requisite for effective business case development for infrastructure. A lack of vision leads to a disconnected patchwork of policy and projects, confusing how best to identify solutions to major challenges and leverage opportunities.

Sometimes attempts to articulate a clear vision for a place or region are compromised due to a mismatch with the broader infrastructure pipeline, or poor alignment and a lack of communication with regional and local or city-based strategic planning and targets.

At a project level, increasingly complex mega-projects and integrated infrastructure land-use projects, like many of the metro rail initiatives underway, highlight the importance of and challenge in developing alignment with broader city-building objectives to manage population growth and economic productivity.

Beyond transport infrastructure, opportunities to deliver new models for utility infrastructure delivery, for example water services, or energy, can be limited by regulatory barriers informed by narrow business cases that fail to account for wider benefits for consumers.

Disjointed planning and outcomes should not be mistaken for an integrated vision. Pressure on agencies to deliver new plans (independently of each other) can diminish the ability to articulate alternative futures and scenarios that consider new investment and planning pathways in consultation with the community. An agreed shared vision for a place or region to underpin business case development needs to reflect effective community engagement, and facilitate integrated infrastructure and land-use planning across transport and social infrastructure and public utilities.

**Recommendation 1:**

A shared integrated vision for our cities and communities, itself developed through effective community and stakeholder engagement, should drive the identification of infrastructure programs/solutions.

**Recommendation 2:**

This vision should be supported by clear indicators that help measure success, and provide an anchor for business case development and engagement with the community in the development of regional and local strategic plans and projects.
2 IMPROVING INFRASTRUCTURE DECISION-MAKING

‘When good stuff is done, it is on an ad-hoc basis thanks only to isolated instances of real leadership.’

Findings:

Different objectives and organisational cultures, across all the stakeholders involved in infrastructure business case development, negatively impact business cases supporting infrastructure projects. The varying approaches taken by line agencies, treasuries, statutory agencies, government-owned entities and ministerial directives result in economic conservatism, and inconsistent and incompatible approaches to risk and innovation.

Public policy debate on infrastructure is dominated by transport more than social infrastructure including health, education, aged care and other utilities. Business cases for social infrastructure are unduly influenced by approaches, thinking and methodologies established to inform decisions made on transport projects. These approaches are not always well integrated with the unique characteristics, objectives and benefits inherent in social infrastructure projects.

Treasuries are frequently identified as an obstacle to delivering and communicating a broader evidence base that supports infrastructure decision-making. Short-termism and a focus on reducing costs are seen as characteristic of treasuries, which were singled out as often (though not always) inhibiting reform, innovation and more progressive business case development that works across policy portfolios. Similarly the revenue drivers created within government-owned organisations were identified as precluding consideration of broad social and economic benefits.

Politicisation of infrastructure decisions, for example through commitments made in opposition, or through the haste of an election campaign, result in pre-determined solutions looking for a problem to solve, often under significant time constraints. This can mean that, in some instances, a business case is not developed at all. Reforms to infrastructure decision making should not seek to remove politics from infrastructure, as this is an essential part of the process; rather, political decisions should be held to account based on independent, expert and transparent advice.

Where business cases proceed, a lack of discipline, poor methodologies (see findings below), and inadequate investment obscures risks within projects, increasing costs for all stakeholders. This can be particularly true in cases where disaster relief and recovery funding is allocated based on like-for-like replacement, without accounting for investments that would build longer term resilience.

Probity, and compliance with often poorly planned procurement processes, is often viewed by agencies as the objective rather than the means. Poorly conceived procurement processes that are not tailored to projects add costs, and limit innovation.

There is an opportunity to resource and facilitate greater cross-agency collaboration within and between governments, supporting business case development that helps account for and meet multiple policy objectives across portfolios. This collaboration should encourage innovation through decision making, enabling better use of existing infrastructure, and targeted solutions that deliver broader outcomes through smarter investments, for example through network and system optimisation delivered through technological improvements.

A focus by agencies on prioritising and delivering a project pipeline, rather than understanding success and opportunities for improvement, compromises decision making. Mechanisms for project evaluation and benefit realisation are not prioritised, resourced, or embedded effectively into decision making processes, funding or scoping decisions. For example, data needs that inform evaluation should be identified early and collected to inform project evaluation. A lack of project evaluation, supported by data and evidence, means lessons are not always learned, or considered in business case development for future projects.

Recommendation 3: Business cases for social and economic infrastructure under consideration for state, territory and federal funding should be decoupled from the political cycle and pre-existing commitments, where possible.

Recommendation 4: Statutorily independent agencies should review business cases against adopted and integrated place-based outcomes and indicators, and an assessment of need based on clear vision and effective community engagement.

Recommendation 5: A consistent approach to business case development should be developed by Infrastructure Australia in consultation, and through engagement with: state and territory governments; existing independent infrastructure agencies (including Infrastructure New South Wales, Infrastructure Victoria and Building Queensland); academia and industry.

Recommendation 6: Business cases and infrastructure decisions should be held to account through regular reporting by independent agencies, evaluating these against clear statements of vision, objectives being sought across policy portfolios, state and regional integrated land-use plans, and any relevant city-deals or related initiatives.

Recommendation 7: All governments and their agencies should embed project evaluation and benefit realisation within decision making processes, as a condition of funding and as a core component of project scoping.
3 UNDERSTANDING THE METHOD (AND THE MADNESS) OF BUSINESS CASE DEVELOPMENT

‘Decision makers are often looking for ‘numbers’ to hang decisions off; the Benefit-Cost Ratio (BCR) provides this, but sometimes appears to overwhelm decision making.’

Findings:

Technical methodologies for business case development are in urgent need of investment and reform. Approaches to business case development are inconsistently applied, often based on limited evidence, out-of-date information, poor quality data, and in urgent need of reform across government.

There is currently no mechanism to develop national best practice guidance on contemporary business case development (including externalities/social return on investment etc.) across asset classes and capital value scales.

The development of national best practice guidelines would be welcomed by many agencies to provide a shared understanding of ‘what good looks like’ and to encourage innovation in project development. However, any new guidelines should be voluntary, to avoid new layers of bureaucracy and box-ticking.

There is limited use of options analysis and whole-of-life costing in business case development. Projects should be evaluated against an appropriate range of alternative options, aimed at delivering strategic outcomes, as part of the assessment process. Use and reliance on benefit-cost ratios create a pass/fail culture for decision-makers that in and of itself motivates the delivery of a business case above a benefit-cost ratio of ‘1’.

There is lack of uniformity in business case development both within governments and between jurisdictions. Existing guidelines like the Australian Transport Assessment and Planning (ATAP) Guidelines are inconsistently applied across jurisdictions.

The purpose and application of discount rates is widely misunderstood, and often inflated to counter optimism bias.

There is no consistency in approaches taken to costing and valuing risk, with varying use of different exceedance probabilities.

Government agencies and the private sector require better access to quality data. Agencies already compile masses of data, but to align with shared visions this needs to be accessible and meaningful. More data is not necessarily better.

There are no nationally agreed metrics to measure outcomes through agreed data sources. There is no agreed method for quantification of social and other intangible benefits. Current default values for externalities in business cases are derived from overseas values, and severely limited by available data and research. Australia does not have a locally developed set of externality values, nor any guidance on how to develop or implement externality values.

In regional Australia these issues are particularly acute where the quantification of benefits in contexts unique to our geography and population can be particularly challenging. Guidelines should inform the categorisation of projects, for example, where some ‘transport’ projects, may actually be social infrastructure focused on the delivery of health, education or employment outcomes.

Broader benefits supporting business cases, particularly with regard to social impact and sustainability, should be considered earlier in project scoping. Governments’ commitments to delivering targets agreed under the COP21 Paris climate agreement, and the Sustainable Development Goals should be prioritised, weighted, and communicated with greater significance through business cases.

Our recommendations below seek to broaden the remit for Infrastructure Australia, recognising the opportunity for national coordination and leadership. We recognise that the process to engage Infrastructure Australia in these areas of responsibility would need to be carefully managed in consultation with state and territory governments.

Recommendation 8:
The Australian Government should provide additional resources to Infrastructure Australia to support the delivery of the recommendations in this report across government.

Recommendation 9:
Infrastructure Australia lead the development of nationally consistent guidelines for business case development for both social and transport infrastructure. These should:

• Explain how to value (in a monetary or non-monetary sense) and support the consistent application of externalities like land-use, health, environment, active travel, urban amenity and carbon abatement;

• Account for different methodologies based on asset classes, investment scales and procurement methods;

• Provide an approach to costing and valuing risk using exceedance probabilities;

• Establish an agreed discount rate (for example, below 7 per cent);

• Explain circumstances where it may be appropriate to accept projects with a BCR less than 1;
• Explain how to use existing and future (see recommendation below) externality values; and
• Provide guidance on approaches to engaging stakeholders and communicating business cases to media and the public (see findings and recommendation below).

These guidelines should be adopted by governments with a commitment to their application through treasuries, line agencies and infrastructure delivery bodies.

**Recommendation 10:**
Infrastructure Australia initiate and co-ordinate the development of Australia-specific, nationally agreed metrics to measure necessary externalities through agreed data sources.

**Recommendation 11:**
Infrastructure Australia establish and support a ‘community of practice’ across industry, academia and government, encompassing treasuries, line agencies and infrastructure delivery bodies, to support understanding and information sharing on good practice for business case development.

**4. ENGAGING THE PUBLIC IN THE BENEFITS OF THEIR INFRASTRUCTURE INVESTMENT**

“There is a flawed assumption that the community won’t be interested in the detail of a business case. As a consequence, not enough thought is put into how projects are communicated to the media and the broader public.”

**Findings:**
Public policy debate around infrastructure projects is too often unduly centred on headline driven project-based reporting of benefit-cost ratios, not full business cases evaluated against an overarching strategy or vision. The simplicity of a benefit-cost ratio and its accessibility for media consumption is compromising the ability to deliver social licence for complex projects with broader business cases or less easily quantified benefits developed in consultation with the community. Any inconsistencies and compromises reached to deliver a benefit-cost ratio are rarely scrutinised.

Conversely the explanation of externalities and secondary benefits considered within a broader business case are generally not well presented or communicated with a sufficiently compelling narrative to engage the public. This contributes to the moral hazard and pressure to shift benefit-cost ratios above “1” described above.

Business cases need to be reviewed and supported by communication that better explains and engages the public in the impact and outcomes of their infrastructure investments, and better holds decision makers accountable against these. Communities are often less concerned by the cost of infrastructure than the broader benefits it delivers against their identified priorities.

Business cases should support narratives for infrastructure decisions that communicate benefits across a range of policy portfolios and objectives prioritised by government and communities. Above all, a business case should be clearly linked to broader integrated strategic plans and visions led by our elected representatives.

**Recommendation 12:**
Governments and their agencies, and the ‘community of practice’ established above, should review how they can most effectively explain and communicate business cases to the public, which should be published in full. This must:
• Connect business cases and projects with overarching strategic plans and visions articulated by government, reflecting community priorities and needs;
• Ensure all benefits are understood, evidence based and supported by relevant data collected against those strategies developed above; and
• Ensure that the broader context for infrastructure decision making helps inform social licence for projects on the ground.
NEXT STEPS

We invite government, broader industry and academia to engage with us in progressing the findings and recommendations in this report to support better business cases for infrastructure, and to realise more value from our infrastructure spend. ASBEC will proactively take forward these recommendations as the basis for more detailed discussions to support policy reform across agencies and with parliaments around Australia. These recommendations will not be achieved without the full support of industry. Through collaboration with government, we hope to deliver better outcomes for communities across Australia, and a better appreciation of the bang they are getting for their infrastructure buck.

ABOUT US

The Australian Sustainable Built Environment Council (ASBEC) is the peak body of key organisations committed to an efficient, productive and sustainable built environment in Australia. Membership consists of industry and professional associations, non-government organisations and government observers who are involved in the planning, design, delivery and operation of our built environment.

ASBEC is focused on developing and advocating policy that improves the long-term productivity, liveability and sustainability of cities, urban communities and their underpinning infrastructure.

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