

Initial response to the 2022 Review of Infrastructure Australia's cost-benefit analysis methodology

March 2022

Introduction

The *Infrastructure Australia Act 2008* (Cth), requires that Infrastructure Australia's approved cost-benefit analysis (CBA) methodology (which is set out in the Infrastructure Australia Assessment Framework¹) is reviewed every two years. The review considers whether the methodology takes into account social, environmental and economic costs and benefits adequately.

The most recent review was undertaken by Frontier Economics and was published in March 2022. It is available at: <https://www.infrastructureaustralia.gov.au/sites/default/files/2022-03/2022%20CBA%20methodology%20review.pdf>

In this paper, we have presented the review's findings and our initial responses. In due course, this paper will be replaced by our final response, which sets out how the findings have been progressed and/or addressed in the Assessment Framework documentation.

Overview of the review's findings

In the final report of this 2022 review, Frontier stated that:

The overarching finding of this review is that **the CBA guidance within the Assessment Framework provides an adequate and fit for purpose methodology** to support proponents in developing a robust CBA of infrastructure proposals.

The review found nine areas where the methodology could be strengthened. In addition, some broader opportunities were identified to provide clear guidance on emerging methodologies and strengthen the evidence base for CBA to more robustly capture a broad range of impacts.

Some of the findings are recommended changes, while others are for consideration.

¹ <https://www.infrastructureaustralia.gov.au/publications/assessment-framework>

Findings and initial responses

We have reviewed the findings of the 2022 review and provide the following initial responses. Further investigation and stakeholder engagement is required to confirm our response and determine how to update our guidance in response to the findings.

Item	IA initial position	Initial response
Base case definition	Support	In response to the finding that the current base case definition could be misinterpreted and result in a 'do nothing' base case scenario, we support updating the definition in the Assessment Framework to more clearly describe the requirements of a 'do minimum' base case (our preferred base case scenario).
Benefit-cost ratio definition	Support in principle	<p>Our benefit-cost ratio definition aligns with the current Australian Transport Assessment and Planning (ATAP) guidelines² definition. However, we note that this approach may give sub-optimal results where the aim of the proposal is to reduce costs given a specific service outcome (e.g. circular economy principles).</p> <p>We intend to engage with relevant stakeholders to discuss the appropriateness of this change and ensure alignment across jurisdictions.</p>
Distributional analysis	Support	<p>Distributional analysis is an emerging area for major infrastructure business cases, with the approach, inclusions and audience still being developed.</p> <p>We will be expanding on our existing guidance in future iterations of the Assessment Framework and will address this recommendation in conjunction with this work.</p>
Economic vs financial analysis	Support	<p>Economic and financial analysis are both central elements of a business case to support decision-making.</p> <p>We support more clearly emphasising the different purpose and requirements of these in the Assessment Framework documentation.</p>
Treatment of transfers	Support	<p>It is the intent of the Assessment Framework that transfers are not included in CBA, except in specific situations such as where acquisition of land is a material investment cost.</p> <p>We support more clearly emphasising the treatment of transfers in the Assessment Framework documentation.</p>
Greater clarity on Infrastructure Australia's expectations for applying CBA guidance in practice	Further investigation required	<p>We recognise that there is value in providing further guidance for proponents on how to scale CBA to suit the complexity of different proposals.</p> <p>However, as the Assessment Framework primarily applies to major infrastructure proposals, there may be limited value in providing additional guidance on scaling CBA for smaller proposals in the guidance.</p>

² www.atap.gov.au

Non-monetised impacts	Support	<p>We recognise that there is value in providing additional detail and guidance in this emerging area, particularly where non-monetised costs and benefits are a key factor in an investment decision.</p> <p>Stakeholder engagement is required to determine the preferences and information requirements of decision-makers to guide our response.</p>
Deferral test	Further investigation required	<p>We recognise that there is value in providing additional guidance on how to respond to the results of deferral tests.</p> <p>Stakeholder engagement is required before confirming our response, as this should reflect the preferences of decision makers.</p>
Broader discussion of appraisal periods	Further investigation required	<p>We recognise there is value in providing additional guidance for treatment of non-standard appraisal periods (short and long-life infrastructure options).</p> <p>Stakeholder engagement is required to discuss the appropriateness of this change and ensure alignment across jurisdictions.</p>

Broader recommendations

The 2022 CBA review also identified broader opportunities to provide clear guidance on emerging methodologies and strengthen the evidence base for CBA to more robustly capture a broad range of impacts. These broader opportunities comprise of:

- Accounting for social and environmental impacts in CBA
- Addressing challenges related to treatment of transformational projects.

Accounting for social and environmental impacts in CBA	Support	<p>We recognise the gap in accepted methodologies and evidence base to support the full range of social and environmental impacts of infrastructure proposals.</p> <p>Areas identified for further development include:</p> <p>Social impacts:</p> <ul style="list-style-type: none"> • Community resilience • Changes in human health • Quality of life impacts. <p>Environmental impacts:</p> <ul style="list-style-type: none"> • Cost of carbon • Urban heat island impacts • Biodiversity impacts. <p>This recommendation complements the recommendations in the 2021 <i>Australian Infrastructure Plan</i>³ to strengthen CBA guidance for social infrastructure, green and blue infrastructure and resilience impacts.</p> <p>We intend to continue to develop the Assessment Framework and CBA guidance by adopting best practice guidance and aligning with progressive methodologies applied nationally or internationally, as appropriate, such as the UK Treasury <i>Green</i></p>
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³ <https://www.infrastructureaustralia.gov.au/publications/2021-australian-infrastructure-plan>

*Book*⁴, NZ Treasury *Wellbeing Outlook*⁵ and the UN *Sustainable Development Goals*⁶.

Future guidance will also be prepared in consideration of our *Sustainability Principles*⁷.

Addressing challenges related to treatment of transformational projects.

Support

We recognise that a range of definitions and considerations for 'transformational' projects exist, which can impact consistent consideration of projects.

We intend to work with our stakeholders to better define 'transformational' infrastructure and determine whether additional CBA guidance is required within the Assessment Framework.

Next steps for the Assessment Framework

Infrastructure Australia has a prioritised work program of new and enhanced guidance areas to build on the content in the 2021 edition of the Assessment Framework and which responds to the findings of the 2022 CBA review. We are engaging with stakeholders and proponents to discuss and define the areas that are of most value to improve infrastructure project development practices, while maintaining consistency across jurisdictions.

We are planning to provide incremental updates to the refreshed 2021 Assessment Framework materials over the coming years.

⁴ www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government

⁵ budget.govt.nz/budget/2021/wellbeing/outlook/index.htm

⁶ sdgs.un.org/goals

⁷ https://www.infrastructureaustralia.gov.au/publications/sustainability_principles