

# ESA

The Economic Society  
of Australia



Department  
of Industry

## Building it right: Fundamentals in public investment processes

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# Building it right: Fundamentals in public investment processes

I. Who benefits?

II. Getting the process right

III. The infrastructure experience in NSW



# I. - Who benefits?: Perspectives

Different perspectives on who benefits:

- Factors or facets of economic activity
- Demographic
- Intertemporal
- New versus existing users



# I. - Who benefits?: Why it matters

- i. Decision makers' needs
- ii. Chances of success
- i. Delivering a better project
- ii. Better return on public money



# I. - Who benefits?: The flipside

Costs: Who bears them?

Users, taxpayers or external parties?

Transaction costs perspective

Who benefits v who pays

No automatic right to compensation



## II. Getting it right: Lessons learned

Arrow, *et al* (1996): *Benefit-Cost Analysis in Environmental, Health and Safety Regulation*

BCA should be required for all major regulatory decisions

Use CBA as a guide

Good BCA will identify important distributional consequences

Don't neglect important qualitative factors

External review improves analysis

Establish guidelines

Utilise a range of discount rates



# II. Getting it right: Lessons learned

Schott Commission of Audit

*The framework is conceptually sound, but its components appear to be implemented inconsistently and often not at all.*

Inattention to maintenance

Not all options are thought about that could meet government objectives

Emphasis on new build

Projects not always subject to rigorous analysis

Lack of prioritisation



# II. Getting it right: Get in early, think flexibly

The process of developing cost benefit analysis

Start early

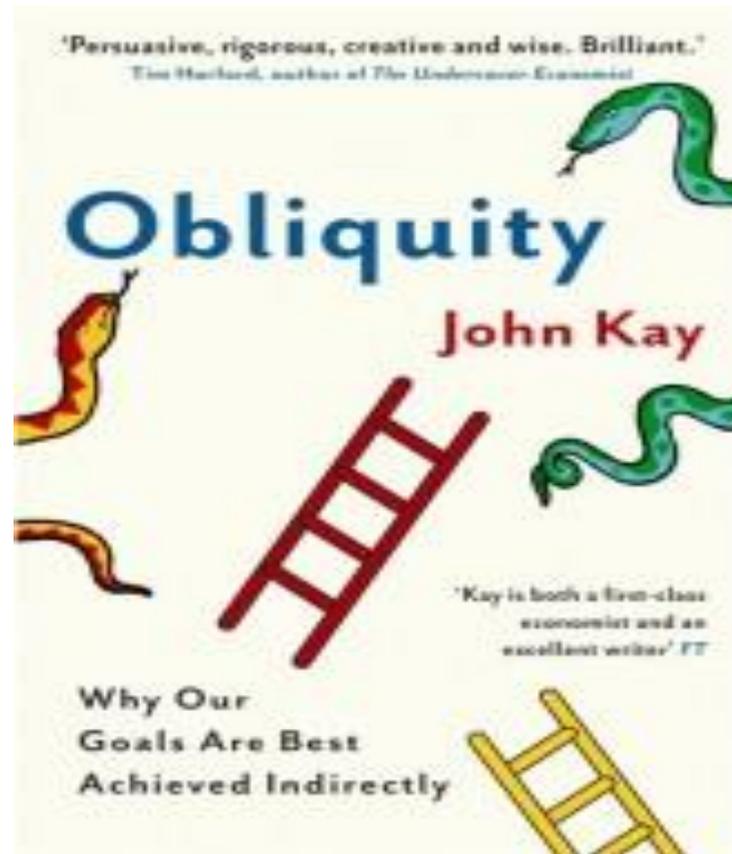
New information

New ideas

Prioritising and reprioritising objectives



## II. Getting it right: New information & ideas



# III. The infrastructure experience in NSW: The creation of Infrastructure NSW

CoA Directive:

*Infrastructure NSW needs to increase discipline by introducing greater objective scrutiny of the social and economic objectives, requirements and cost estimates underpinning major infrastructure projects*

Governance: independent board

Planning responsibility: SIS/SIP/Sectoral plans

Funding recommendations: Restart NSW

Restart NSW



# III. The infrastructure experience in NSW: The role of infrastructure

Government influence on productivity		Elements
Driver	Incentives	External pressures and disciplines on firms to perform well
Enablers	Capabilities	Resources, systems, institutions, infrastructure
	Flexibility	Scope to make changes



# III. - The infrastructure experience in NSW: The role of co-investment

Infrastructure is more an enabler of economic growth and productivity than a driver.

The role of infrastructure in supporting economic activity, rather than creating it...

**Who are the co-investors, and what are the determinants of their decision making?**



# III. - The infrastructure experience in NSW: Restart NSW and the 'three part test'

Infrastructure NSW applies a three part test in assessing Restart funding proposals:

- Strategic fit
- Economic merit
- Completed assurance processes

