UDIA NSW President's Taskforce on Infrastructure Contributions Reform

Policy Issue Paper

Review of Processes for State Funded Growth Infrastructure

Executive Summary

The current infrastructure contributions reforms being undertaken by the NSW Government as recommended by the NSW Productivity Commissioner, provide an opportunity to solve several funding challenges impeding the delivery of growth infrastructure. However, the bottleneck to the timely provision of growth infrastructure is not just a funding problem. The NSW Government should take this opportunity to make additional changes:

1 – Speed up the delivery of Tier 3 and Tier 4 growth infrastructure projects
For lower risk infrastructure projects, known as Tier 3 and Tier 4, the current costs and time delays from Assurance Processes is adding years to the delivery of some infrastructure projects.

The NSW Government can significantly improve Assurance Processes without increasing risk to deliver growth infrastructure projects, in both a timelier and more cost-effective way. These improvements include how business cases are used and created, speedier land acquisition and more efficient governance arrangements.

2 - Align growth infrastructure with agency capital plans
Historically, growth infrastructure has been severely delayed in NSW by a failure to integrate growth priorities with agency capital plans. The creation of Regional Infrastructure Contributions (RIC) should be used as an opening to re-visit these integration processes and fix the issues.

3 – Modernise the Business Case Creation Process
The creation of business cases has always largely been a manual process. Digital tools are now available that offer the promise of business cases that are both quicker and cheaper to produce, without a significant loss of quality.

If the NSW Government takes on these opportunities to improve their processes, UDIA believes that, in combination with infrastructure contributions reforms, we can see a significant improvement in the timely delivery of growth infrastructure, crucially facilitating an increase in housing supply and improving affordability.

Key Recommendations

Recommendation 1 – The NSW Government in consultation with Councils should undertake a review of the Assurance and governance around Tier 3 and Tier 4 growth infrastructure projects that should include consideration of a range of options that streamline Assurance processes including, following the advice of iNSW for Tier 4 projects (no Assurance reviews required), in some circumstances going straight to Gate 3 Assurance, the merging of the two stages of the business process and using lighter touch business cases.

Recommendation 2 – As part of the review, the NSW Government should consider reducing the onerous reporting arrangements and delegation responsibilities on projects that have highly capable delivery agencies.

Recommendation 3 – The NSW Government should undertake a review into whether its current policy for land acquisition for Tier 3 and 4 projects has provided the best value for money and if this is not the case, make changes to allow for earlier land acquisition.

Recommendation 4 – The NSW Government continues to pursue place-based business cases and Assurance processes.

Recommendation 5 – The NSW Government implements processes to prioritise growth infrastructure at both departmental and cabinet sub-committee levels.

Recommendation 6 – The NSW Government should begin trialing the creation of digital business cases.

Introduction

The funding and delivery of growth infrastructure is a critical part of the urban development process to deliver new housing and employment space.

UDIA's 2021 Building Blocks reports identified over 70 enabling infrastructure projects across the Sydney Mega Region needed to support greenfield housing supply and improve affordability whilst UDIA's Greenfield Housing Supply Pipeline – May 2021 shows that 80% of all greenfield housing sites still required enabling infrastructure to enable delivery over the next decade. Historically, enabling infrastructure has been held up by both funding constraints and delivery processes.

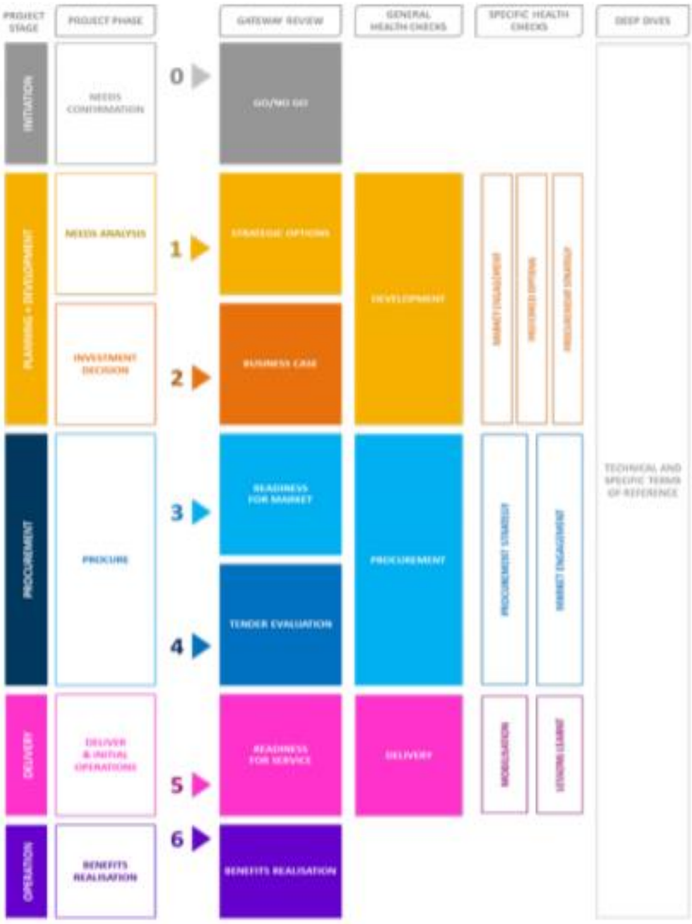
The current review into infrastructure contributions means that state Special Infrastructure Contributions (SIC) will be replaced by RIC that will generate funding for itemised infrastructure across a region, rather than for special contribution areas. RIC has the potential to significantly reduce the funding constraints on growth infrastructure. However, it will only optimise the timeframes for infrastructure delivery, if it is also implemented alongside other reforms.

The NSW Infrastructure Assurance Process

The NSW Infrastructure Investment Assurance Framework (IIAF) applies a risk-based Assurance framework to try and ensure that state funded infrastructure projects are delivered on time and on budget. The IIAF is typically applied to all state funded infrastructure projects with a capital cost exceeding $10 million. The key gateway steps are provided in Figure 1.

Under the IIAF, at Gate 0, iNSW puts projects into one of four categories based on their risk profile. This ranges from High-Risk / High-Profile projects such as major highways and railways, which are categorized as Tier 1 / Tier 2, to minor projects categorised as Tier 3, which still require assurance reviews and Tier 4 projects, which do not require an assurance review.

Figure 1 -Key Assurances Gateway Steps



iNSW is the Assurance agency for Tier 1 / 2 projects and does not get involved in lower risk projects. It is left to delivery agencies to arrange an independent Assurance review. This paper focuses on the following IIAF gates:

1) Gate 0 – Confirms the need for the project and allocates a project tier.
2) Gate 1 - Needs Analysis and preparation of a Strategic Business Case (SBC) with options assessment.
3) Gate 2 - Investment Decision and preparation of a Final Business Case (FBC), Benefit Cost Ratio (BCR), planning approval and detailed cost estimate (known as a P90).

Some departments and agencies within the NSW Government have required Tier 3 and 4 projects to undertake Assurance through Gate 0 - Project Justification, Gate 1 - SBC, and Gate 2 - FBC. This is contrary to the iNSW requirements, which states that Tier 3 projects only need to undertake Assurance for Gate 0 with Assurance for other gates being optional and Tier 4 projects requiring no Assurance reviews.

By comparison, the Accelerated Infrastructure Fund (AIF) round two (a policy championed by UDIA to deliver a 'double dividend' investment in jobs for enabling infrastructure leading directly to new housing supply) takes a very different approach to assurance. The process to obtain AIF funding involves a simple nomination form and preparation of a delivery agreement. The nomination process is short, and a council does not have to commit significant resources at the nomination stage.

Further there is no Assurance process for a nominated project, provided that the project is listed in a contributions plan, has some design rigor, stakeholder endorsement and is generally low risk. The AIF potentially could fund infrastructure projects (roads and stormwater) costing over $30 million, including the Water Lane at Box Hill, which was identified in the UDIA 2021 Building Blocks Greater Western Sydney report.

AIF 2 is now open to Western Sydney growth councils and provides insight into how infrastructure can be delivered within a quicker timeframe to support communities and achieve growth.

Opportunities

UDIA has had reports that the delivery processes being implemented by the NSW Government for SIC and Housing Acceleration Fund (HAF) projects was far from optimal. In discussions with government agencies, Councils, consultants and UDIA members knowledge, we have identified three major opportunities for the NSW Government to improve the delivery of growth infrastructure.

Opportunity 1 – Speeding up the delivery of Tier 3 and Tier 4 growth infrastructure projects

Under SIC and HAF, Tier 3 and Tier 4 regional road projects have been taking ten years to deliver. A summary of the key milestones and durations to deliver a SIC or HAF Tier 3 road is provided in **Table 1.**

Table 1 – General Timeframe for a SIC / HAF Funded Regional Road

Task	Timeframe									
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Nomination preparation										
Gate 0 – Go/No Go and approval of business case funding										
Gate 1 – Strategic Business Case										
Gate 2 – Final Business Case										
Gate 4 – Procure and capital funded provided										
Gate 5 – Deliver and Initial Operations										
Gate 6 – Benefits Realisation										

This process highlights several issues. Firstly, from the beginning of nomination through to the sign off of the FBC is around 5 years. An example of this is Hambledon Road North.

Hambledon Road North is a proposed four-lane, 4-kilometre sub-arterial road, which is classified as Tier 3. After nomination in 2017, DPIE provided business case funding to Blacktown City Council. Part of the funding for land acquisition was provided in early 2021. The Council now needs to proceed through a two-year process of land acquisition and a three-year construction period.

For a Tier 3 project and therefore deemed low risk, this process is excessively long. Unfortunately, this is not a one-off.

In 2020, the City of Shoalhaven Council received HAF funding for a proposed roundabout on Moss Vale Road to support the Nowra-Bomaderry Urban Release Area, that has a potential total yield of 9,000 housing lots. With a capital cost of just $2 million and only one possible location for the roundabout to be placed, Council was directed by the NSW Government to undertake an Assurance process to confirm a BCR.

Despite concerns about the worth of the Assurance process from the Council, the NSW Government insisted that it continued. It has so far taken 12 months.

Blacktown City Council obtained business funding for Railway Terrace (Tier 4) at Richmond but were still required to go through an Assurance process. They now have delivery funding, after four years of project development for a low-risk project.

It is extremely doubtful that the costs and time taken to undertake Assurance for these projects has been worthwhile.

Recommendation 1 – The NSW Government in consultation with Councils should undertake a review of the Assurance and governance around Tier 3 and Tier 4 growth infrastructure projects that should include consideration of a range of options that streamline Assurance processes including following the advice of iNSW for Tier 4 projects (no Assurance reviews required), in some circumstances going straight to Gate 3 assurance, the merging of the two stages of the business process and using lighter touch business cases.

Given the examples above (and they are not the only ones), UDIA believes that the NSW Government needs to undertake a review of the Assurance and governance around Tier 3 and Tier 4 projects. Given the clear need for an integrated approach, this should involve iNSW, DPIE and Treasury as well as the delivery agencies. It would make sense to have representatives from Councils involved as well.

As part of the review, the NSW Government should consider the different conditions that determine how projects come into the Assurance processes. For example, for projects that already have approval in a precinct plan, a detailed design and a derived BCR, it is unlikely that they would benefit from a business case process and so could potentially go straight to Gate 3 - *Readiness for Market.*

This review should also consider a number of other options to streamline the process including:

- Aligning the assurance of Tier 3 and Tier 4 projects with iNSW current processes, i.e. no assurance is required for Tier 4 projects.
- The merging of the strategic and final business cases into one document.
- The use of light touch business cases, similar to an investment decision document.

Recommendation 2 – As part of the review, the NSW Government should consider reducing the onerous reporting arrangements and delegation responsibilities on projects that have highly capable delivery agencies.

Presently, there is a strong oversight of delivery agencies working on Tier 3 and 4 projects. This involves monthly reporting by a delivery agency and a lack of decision making delegated to delivery agencies. For low-risk projects being delivered by agencies that are assessed as being highly capable, this is unlikely to be an efficient way of operating.

Recommendation 3 – The NSW Government should undertake a review into whether its current policy for land acquisition for Tier 3 and 4 projects has provided the best value for money and if this is not the case, make changes to allow earlier land acquisition.

A significant part of the time taken to deliver a project is eaten up by the need for land acquisition. Currently, land acquisition usually only begins once Gate 3 is completed. As well as delaying the delivery of the infrastructure and therefore critically housing supply, the cost of the land (which often makes up around 50%

of the cost of a project), has often escalated quite substantially. For projects that have a high likelihood of progressing and where landowners are willing to sell early, the NSW Government is highly unlikely to be obtaining the best value for money, using the current approach.

The Quakers Link Road at Quakers Hill project provides a good example of this. In 2017, DPIE provided Blacktown City Council with SIC grant funds to acquire land for a proposed road at Quakers Hill (Tier 4). For three years the Council was prevented from undertaking the compulsory acquisition of land owned by the University of Western Sydney until the final business case was signed off.

TfNSW already recognizes the benefits of undertaking land acquisition for infrastructure projects at very early stages in the process to speed-up project delivery and reduce costs. These processes should be explored further for all tiered projects, due to the potential land cost savings.

Recommendation 4 – The NSW Government continues to pursue place-based business cases and assurance processes.

Many growth areas require several pieces of infrastructure to enable growth. Traditionally, each piece of infrastructure was required to undertake its own business case and Assurance process in isolation. This does not make sense when planning places and adds unnecessary time and cost to the delivery of growth infrastructure. UDIA understands that the NSW Government is currently undertaking work to look at place-based business cases and Assurance processes. UDIA believes that this is a step in the right direction and should continue.

Opportunity 2 - Aligning growth infrastructure with agency capital plans

Recommendation 5 – The NSW Government implement processes to prioritise growth infrastructure at both departmental and cabinet sub-committee levels.

Historically, SIC and HAF growth infrastructure projects have struggled to get on to agency capital plans, significantly slowing their delivery. The creation of RIC as part of the infrastructure contributions reforms provides an opportunity to change this dynamic. RIC is projected to provide in the vicinity of $600m of capital to be put towards growth infrastructure. UDIA's understanding is that, given the sums of money involved, delivery agencies are expected to want to access these funds and so will bid to get funding for projects and put them on their capital plans, solving the historical issues. UDIA agrees that this would be a desirable outcome. However, this is a mindset change for delivery agencies and given that most growth infrastructure projects will only be partially funded by RIC with the balance often coming from delivery agencies existing capital funds, we are concerned that this will not in isolation deliver the changes required. Therefore, UDIA would like to see some additional processes put in place in the way the NSW Government operates, until this approach is embedded. In particular, we would like a cross-departmental committee that focuses on the prioritisation of growth infrastructure that makes recommendations to the relevant sub-committees of cabinet to make decisions about the growth infrastructure to be delivered.

Opportunity 3 – Modernising the Business Case Creation Process

Recommendation 6 – The NSW Government should begin trialing the creation of digital business cases.

The creation of business cases is largely a manual process that has not fundamentally changed since the concept of a BCR was first developed. Consequently, they are costly and time consuming. There are now digital tools, such as Urban Pinboard UDP (pioneered by UDIA), that UDIA believes can deliver a rapid assessment of the infrastructure options and the associated costs and benefits in a fraction of the time and money currently spent to deliver a traditional business case.

UDIA recognises that going from today's labor-intensive business cases to a digital approach is a big step to take. Therefore, UDIA believes that the NSW Government should begin by running both approaches in parallel so that it can test the quality of the digital approach and get comfortable with the results produced. The best place to begin this process would be in low-risk Tier 3 and Tier 4 growth infrastructure projects.

Conclusion

The NSW Government's Infrastructure Contributions Reforms focuses on improving the productivity of the state through the more rapid delivery of growth infrastructure. However, there are a number of other barriers beyond infrastructure contributions that hold up the delivery of growth infrastructure.

UDIA believes that the NSW Government should look at the three opportunities outlined within this paper to improve the delivery of Tier 3 and Tier 4 growth infrastructure:

1. Speeding up the delivery of growth infrastructure through reform of Assurance processes.
2. Aligning growth infrastructure priorities with agency capital plans.
3. Modernising the business case creation process.

If these opportunities are taken up and combined with the infrastructure contribution reforms, NSW can look forward to greater productivity, with faster and more cost-effective delivery of growth infrastructure and an increase in housing supply, helping to improve affordability.