



# Review of the National Partnership Agreement on Land Transport Infrastructure Projects

11 July 2018

# Table of Contents

- Terms of Reference ..... 3
- Key findings ..... 4
- About the Review ..... 5
  - The NPA on Land Transport Infrastructure Projects ..... 5
  - Scope of the Review ..... 6
  - Methodology ..... 7
- Findings ..... 9
  - General.....10
- Objectives, Outcomes and Outputs.....11
- Roles and Responsibilities of each Party .....13
- Performance Monitoring and Reporting .....15
- Financial Arrangements .....17
- Timeframes.....20
- Appendix .....21
- Review Questions .....22

# Terms of Reference

## Background

1. The National Partnership Agreement on Land Transport Infrastructure Projects ('the Agreement') commenced on 10 October 2014 and expires on 30 June 2019.
2. The Agreement is the mechanism for providing Commonwealth funding to the states and territories for the delivery of land transport infrastructure and specifies the roles and responsibilities of each party.

## Scope

3. Clause 53 of the Agreement requires a review of the Agreement to be completed approximately twelve months prior to expiry (30 June 2019).
4. The review should consider the operation and effectiveness of the Agreement in facilitating the delivery of transport infrastructure projects, including:
  - a. the extent to which the objectives, outcomes and/or outputs of the Agreement have been achieved;
  - b. the quality, timeliness, accuracy and appropriateness of reporting arrangements including financial reporting; and
  - c. compliance with the associated Notes on Administration.
5. The review shall be collaborative and seek parties' views on future delivery of land transport infrastructure projects, including governance arrangements. Views offered by parties through the review process shall not bind any future agreement.
6. Where relevant, the review shall give consideration to the *National Land Transport Act 2014* in the operation of the Agreement.
7. The conduct of the review shall be in accordance with the requirements of Agreement.

## Process for conducting the review

8. The Commonwealth Department of Infrastructure, Regional Development and Cities, in consultation with Commonwealth central agencies, shall be responsible for ensuring that the conduct of the review is in accordance with the requirements of the Agreement and the Federal Financial Relations Framework.

The Commonwealth and all relevant states and territories shall participate in the conduct of the review, including through a mix of written correspondence, teleconferences and face-to-face meetings, as appropriate. Jurisdictions will be responsible for meeting any costs associated with their participation in the review.

## Review outcomes

9. A report on the outcomes of the review shall be prepared. The report will be made publicly available.
10. The report shall:
  - a. document the findings of the review; and
  - b. inform decisions on future governance and administrative arrangements following expiry of the current National Partnership Agreement.

# Key findings

## General

1. The National Partnership Agreement (NPA) is generally viewed by the jurisdictions as an effective mechanism between the Commonwealth, states and territories (the jurisdictions) to support the funding of land transport infrastructure projects

## Objectives, Outcomes and Outputs

2. There is general agreement that the projects funded under the NPA contribute to the objectives and outcomes outlined in the NPA, however, the direct contribution of individual projects is difficult to quantify
3. Several jurisdictions called for a better understanding of the Commonwealth's land transport policy intent and priorities
4. Tying infrastructure funding to broader policy outcomes (e.g. Indigenous outcomes) is problematic and requires further consideration

## Roles and Responsibilities of each Party

5. The roles and responsibilities of the parties to the agreement are generally clear, however, there is some uncertainty with regard to the roles of other infrastructure bodies and how they relate to the NPA

## Performance Monitoring and Reporting

6. While the type of information being reported is appropriate, most jurisdictions feel that the reporting processes are onerous and the reporting systems are not user friendly
7. Milestone reporting and payments make sense, but can cause difficulties with internal state/territory departmental processes

## Financial Arrangements

8. There are mixed views and experiences in regard to the management of overspends and underspends on transport projects and the sharing of cost risks
9. Horizontal Fiscal Equalisation (HFE) creates a disincentive for jurisdictions to apply for infrastructure funding from the Commonwealth, especially for projects not on the National Land Transport Network
10. Several jurisdictions considered the Commonwealth's maintenance funding to be inadequate and not keeping pace with network expansion
11. Delays in gaining project funding approvals can be compounded in delivery due to the short construction season in some jurisdictions and high levels of activity in the construction market

## Timeframes

12. Continuing to extend the NPA beyond the construction stage of the project lifecycle is welcome
13. A five-year timeframe for the NPA, combined with annual funding allocations, is not well suited to the nature of infrastructure planning and delivery

## About the Review

### The NPA on Land Transport Infrastructure Projects

The National Partnership Agreement on Land Transport Infrastructure Projects (the NPA) was signed on 10 October 2014 and created under the provisions of the Intergovernmental Agreement on Federal Financial Relations. The NPA supports the delivery of infrastructure projects and sets out how the Commonwealth and state and territory governments will work together to deliver infrastructure projects for the benefit and wellbeing of Australians.

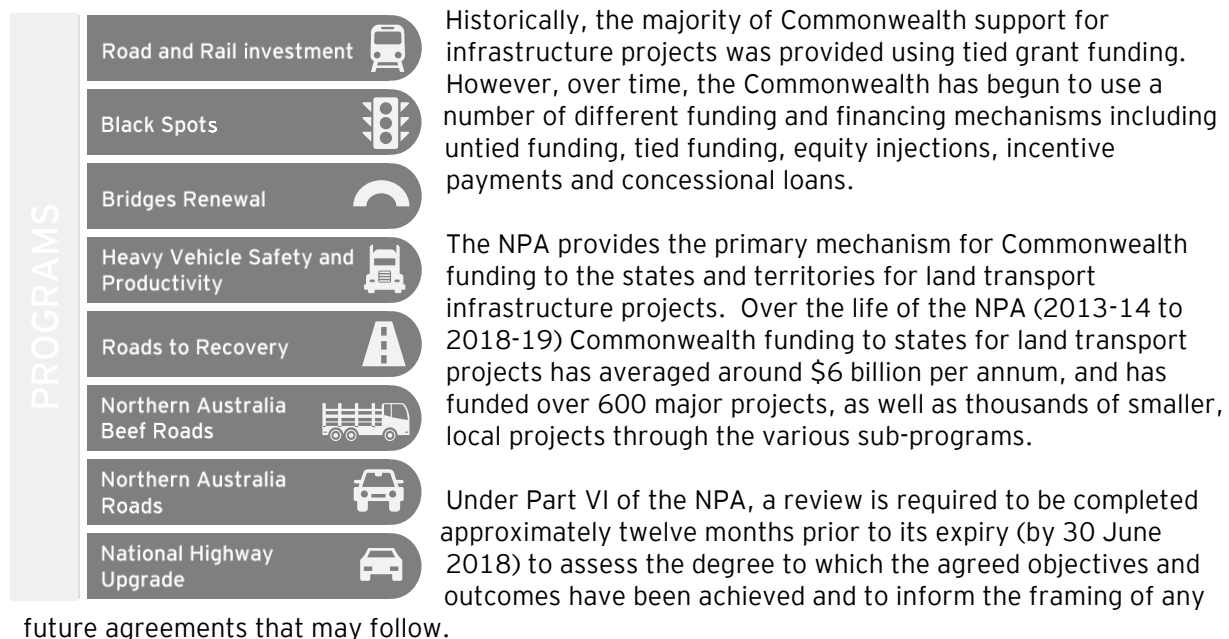
The NPA on Land Transport Infrastructure Projects aspires to achieve “a safe, sustainable national transport system that enhances the interconnectivity of corridors (networks) of significant economic opportunity across Australia.”<sup>1</sup>

The NPA aims to facilitate the achievement of four outcomes:

1. Improved land transport infrastructure that supports economic growth and productivity
2. Improved connectivity for communities, regions and industry
3. Improved transport safety
4. Integrated and innovative network-wide planning for land transport infrastructure

The NPA covers projects administered under the *National Land Transport Act 2014* (NLT Act) and/or the *Nation-building Funds Act 2008*. The NPA, the associated Notes on Administration and NLT Act are intended to be read as a package. Where there are inconsistencies the NLT Act prevails.

Each state and territory has a separately agreed schedule to the NPA which sets out the projects and quantum of the Commonwealth's investment. The different programs covered by the NPA are outlined in the diagram below left and include a variety of funding streams, each with different eligibility criteria, funding conditionality and governance arrangements.



<sup>1</sup> National Partnership Agreement on Land Transport Infrastructure Projects, p3

## Scope of the Review

EY was engaged by the Department of Infrastructure, Regional Development and Cities (the Department) to undertake a Review of the NPA (the Review).

The Department developed the Terms of Reference for the Review (page 4) in consultation with state and territory governments. In accordance with the Terms of Reference the purpose of the Review is to consider the operation and effectiveness of the NPA in facilitating the delivery of land transport infrastructure projects, including:

- ▶ The extent to which the objectives, outcomes and/or outputs of the NPA have been achieved
- ▶ The quality, timeliness, accuracy and appropriateness of reporting arrangements, including financial reporting
- ▶ Compliance with the Notes on Administration

The Review is intended to canvass a broad range of issues and topics important to the Commonwealth, states and territories (the jurisdictions) and focus on:

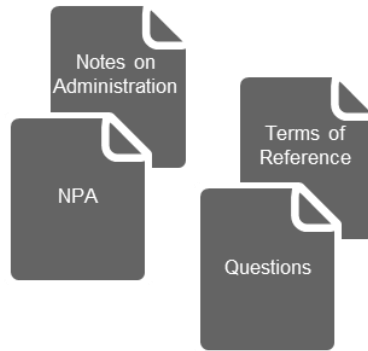
- ▶ Gathering qualitative feedback from the jurisdictions on the effectiveness, efficiency and appropriateness of the NPA
- ▶ Identifying key findings and themes emerging from these consultations without making any recommendations for the future NPA

The Review was undertaken to ascertain and summarise the views of state and territory governments, as well as the Commonwealth, on the NPA. These views are reflected in the Key Findings (page 5). The Review was not intended to put forward any interpretation or assessment of the merits of the views expressed by the jurisdictions and was not a legal review.

# Methodology



## 1 Design



How?

## 2 Consult



Teleconference



Face to face



Written correspondence

With who?



Treasury



Premier and Cabinet



Transport



For the Commonwealth, States and Territories

## 3 Review and report





## Design

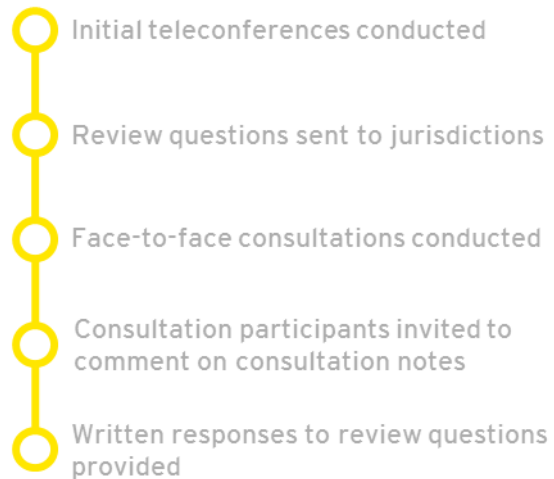
The project commenced with designing the framework and questions to guide the Review. The Review questions were developed in consultation with the Department (Appendix A). The Review questions were informed and guided by the Terms of Reference for the Review, the Notes on Administration and the Federal Financial Relations 'A Short Guide to Reviewing National Partnership'<sup>2</sup>.



## Consult

The consultation process included teleconferences, face-to-face meetings and written correspondence with representatives from each jurisdiction.

1. **An initial teleconference** was conducted with jurisdictions to broadly canvass key issues with the NPA.
2. **A face-to-face consultation meeting** was conducted to discuss the Review questions. Prior to the face-to-face consultations, participants were sent the Review questions.
3. **A written summary** of the face-to-face consultation notes was distributed to the meeting attendees for any clarifications and further comments.



The stakeholders consulted included:

- ▶ State and territory transport departments, first minister's departments and treasuries
- ▶ The Department
- ▶ The Commonwealth Treasury, the Department of Prime Minister and Cabinet and the Department of Finance



## Review and report

The consultation notes were analysed to identify key findings and themes of the Review which are presented in this report.

<sup>2</sup> Federal Financial Relations (2015) A Short Guide to Reviewing National Partnerships, [http://www.federalfinancialrelations.gov.au/content/guidelines/Short-Guide\\_review\\_2015.pdf](http://www.federalfinancialrelations.gov.au/content/guidelines/Short-Guide_review_2015.pdf). This guidance document was referred to in developing the review questions.



A photograph of a railway track with a yellow frame overlay containing the word 'Findings'. The track is in the foreground, leading towards a blurred background of railway infrastructure, including overhead power lines and buildings. The word 'Findings' is centered within the yellow frame.

# Findings

## General

### **1. The NPA is generally viewed by the jurisdictions as an effective mechanism between the Commonwealth, states and territories (the jurisdictions) to support the funding of land transport infrastructure projects**

Jurisdictions broadly agree that the NPA is an appropriate mechanism for supporting Commonwealth, state and territory funding payments for land transport infrastructure projects.

The NPA has been extant during a period of overall improvement in infrastructure planning and delivery. There is general agreement that the overall selection and administration of projects is better today than it was five years ago, albeit with areas identified for further improvement. There was broad recognition from the jurisdictions that the introduction of the NPA has supported improved funding processes between the Commonwealth and the jurisdictions.

Over the life of the NPA there have been no major disputes or amendments to the NPA. Over the same period the NPA has successfully facilitated an average of \$6 billion in funding per annum to more than 600 major projects.

A strong working relationship between the Commonwealth and jurisdictions at the officials' level supports the efficiency and effectiveness of the NPA. Strong communications between teams and a mutual understanding of each other's requirements aids in avoiding and minimising any issues that arise between the Commonwealth and the jurisdictions in regard to the NPA. This relationship was highly valued by all jurisdictions.

## Objectives, Outcomes and Outputs

### 2. There is general agreement that the projects funded under the NPA contribute to the objectives and outcomes, however, the direct contribution of individual projects is difficult to quantify

The objectives and outcomes are high level statements referring to a range of aspirations such as 'sustainable national network', 'improved connectivity', 'economic growth and productivity' and 'innovative network wide planning'.

There is a broad consensus that projects funded under the NPA contribute to achieving the objectives and outcomes of the NPA. However, the extent to which each objective and outcome has been achieved varies across jurisdictions and between projects. Some projects contribute broadly to all objectives and outcomes while other projects are more targeted towards delivering specific objectives or outcomes.

The high level nature of the objectives and outcomes provides flexibility for a range of projects to be funded under the NPA. While jurisdictions generally appreciated the flexibility that resulted from having high level objectives and outcomes, they also acknowledged that the high level nature of the objectives and outcomes makes it difficult to:

- ▶ **Quantify the objectives and outcomes:** It is difficult to quantify objectives and outcomes such as connectivity, sustainability, economic opportunity, and innovative network wide planning. Some jurisdictions commented that there is a lack of key performance indicators to support the objectives and outcomes.
- ▶ **Attribute the benefits of any one project to the achievement of objectives and outcomes:** Due to the broad definition of the objectives and outcomes, some jurisdictions found it difficult to attribute the achievement of one particular project to one particular objective or outcome. Some jurisdictions found that there is often no direct link between project level metrics and indicators and the objectives and outcomes of the NPA. The gap between project level metrics and the objectives and outcomes is too wide to determine the contribution of projects to the objectives and outcomes and the extent to which the NPA's outcomes have been achieved as a whole.

The NPA does not require jurisdictions to quantify the extent to which objectives or outcomes have been achieved nor does it provide guidance on how to do this.

It can take several years for the benefits of infrastructure investments to come to fruition and the five year timeframe for the NPA is not sufficient to assess if benefits have been achieved.

The 12-month post completion report required by the NPA focuses on construction completion rather than benefits assessment. The data gathered by the Commonwealth in the post completion report provides a limited view of a project's achievement of the objectives and outcomes and is not used by the Commonwealth for evaluation purposes. The post completion reports are used to facilitate the final payment and trigger an assessment of the actual project funding, timeline and scope against what was set out in the project proposal.

### **3. Several jurisdictions called for a better understanding of the Commonwealth's land transport policy intent and priorities**

It is not clear how the NPA relates to a range of land transport policy areas, many of which have emerged over the life of the NPA. These include integrated planning, value capture, urban planning, city deals, equity investment and corridor protection. The manner in which these policy areas shape and influence project identification and selection is not clear.

Over the life of the NPA, changes in Government priorities have shifted and shaped the policy and modal focus for infrastructure investments. The NPA is flexible enough to allow Commonwealth, State and Territory Governments to pursue different policy and project priorities under the NPA framework, which is important given its five year time horizon.

There was some recognition that there may be a trade-off between the NPA providing a greater understanding of the Commonwealth Government's land transport policy intent and maintaining flexibility for changing government priorities.

### **4. Tying infrastructure funding to broader policy outcomes (e.g. Indigenous outcomes) is problematic and requires further consideration**

Some jurisdictions questioned the appropriateness of tying broader policy outcomes to infrastructure projects and advocated for project selection to be based on the merits of the project in the first instance.

While the policy outcomes referred to include a range of policy areas such as value capture, Indigenous outcomes and integrated planning, the discussion primarily focused on Indigenous outcomes. Many jurisdictions raised concerns with regard to tying infrastructure funding under the Northern Australia Roads and Beef Roads programs to Indigenous policy outcomes. These jurisdictions felt that 'shifting the goal posts' during the NPA without incentivising jurisdictions to achieve the outcome was not appropriate.

The key issues raised by the jurisdictions in regard to Indigenous outcomes are:

- ▶ The additional outcomes create additional reporting requirements, adding to the burden of reporting.
- ▶ The additional outcomes are often rigid and not flexible enough to account for different project type, size and location.
- ▶ Establishing the targets took considerable time, sometimes in excess of a year, and there were several Departments involved at the Commonwealth level.
- ▶ Project approvals processes are delayed by the need for both Infrastructure and Indigenous Ministerial approval for projects.
- ▶ Mandatory Indigenous procurement requirements may impact on jurisdictions' ability to deliver infrastructure projects.

In some instances, Commonwealth funding for specific projects was tied to jurisdictions' support for Commonwealth led projects and initiatives (i.e. inland rail). Jurisdictions felt this was inappropriate.



## Roles and Responsibilities of each Party

### **5. The roles and responsibilities of the parties to the agreement are generally clear, however, there is some uncertainty with regard to the roles of other infrastructure bodies and how they relate to the NPA**

Since the NPA came into effect a number of new infrastructure bodies have emerged, including the Infrastructure Project Financing Agency (IPFA), and the Commonwealth Cities Unit.

The new infrastructure bodies at the Commonwealth level have policy agendas that are relevant to the delivery of infrastructure projects. For example, part of IPFA's purpose is to 'provide independent commercial and financial advice to support the delivery of the Australian Government infrastructure projects'.

The role of new Commonwealth infrastructure bodies in identifying, selecting and shaping projects is not clear amongst jurisdictions. Many jurisdictions felt that more guidance is needed on how the broader government's infrastructure agenda influenced project selection. Many jurisdictions indicated that greater clarity in regard to the role of new infrastructure bodies and their respective policy agendas will support more informed decisions by jurisdictions on the most appropriate avenue for seeking funding for specific projects.

Most jurisdictions felt that the relationship between Infrastructure Australia (IA) and the NPA requires more consideration and clarity. At the time the current NPA was drafted changes to the IA legislation were being considered and yet the NPA does not mention IA.

The Review identified several issues in regard to IA, some of which do not appear to be directly related to the NPA itself. The key issues raised with regard to IA include:

- ▶ There is uncertainty in regard to the role of IA, and many jurisdictions felt that the processes for submitting projects to IA and the Department are somewhat duplicative and could be more streamlined. Jurisdictions commented that IA's focus was on the economics of projects, while the NPA was more focused on the financial arrangements of projects.
- ▶ Jurisdictions' views of the role of IA in determining project funding and how IA relates to the NPA varied. Some jurisdictions felt that IA approval of projects and priority status was very important, while others felt that it was a necessary process but less critical in determining funding outcomes.
- ▶ Jurisdictions noted that there is some uncertainty with regard to the rationale of IA assessing business cases after the Commonwealth has agreed to fund the project. Some jurisdictions commented that responding to IA questions on whether or not the right solution has been identified after the Commonwealth had committed funding was of little consequence. The IA assessment can also delay the release of funding and the commencement of the project, despite the Commonwealth already committing to the project.
- ▶ Several jurisdictions raised concerns with IA's criteria for 'national significance' and commented that the current definition of national significance precludes some smaller jurisdictions and projects from inclusion on the National Infrastructure Priority List.

In addition to discussions about the roles and responsibilities of infrastructure bodies, one jurisdiction felt that the role of the Commonwealth under the NPA could be broadened to include the

facilitation of information sharing between jurisdictions on a broad range of matters including solutions, technology and innovation.

## Performance Monitoring and Reporting

### 6. While the type of information being reported is appropriate, most jurisdictions feel that the reporting processes are onerous and the reporting systems are not user friendly

Most jurisdictions find the reporting process to be onerous and resource intensive. On the other hand, some jurisdictions acknowledged that the level of reporting (the type of information requested) was appropriate for the amount of funding received.

The information required by jurisdictions to complete reports was already generally collected by jurisdictions for internal reporting requirements, and therefore did not represent a major additional impost. However, the level of reporting, reporting systems and frequency of reports were all raised as issues:

- ▶ **Inflexible and not proportionate:** the level of monthly reporting required is consistent for all projects regardless of project cost or the level of Commonwealth funding contributed, with additional reporting required for larger or riskier projects. Some jurisdictions felt this was inappropriate and that the NPA required a more flexible approach to reporting that allowed reporting requirements to be proportional to the size of the project, the level of activity / progress made on projects or reported on a program level.
- ▶ **Lack of clarity in regard to how/if reports are used:** some jurisdictions indicated that it is not clear if the reports provided to the Commonwealth are meaningful and used. Most jurisdictions thought that the reporting requirements have evolved to be what they are today in an incremental way and there is a need to review and streamline reporting requirements.
- ▶ **Non-user friendly reporting systems:** some jurisdictions noted that the reporting systems used by the Commonwealth are cumbersome and outdated making it difficult and time consuming to submit reports.
- ▶ **Reports are required too frequently:** some jurisdictions noted that monthly reporting was too frequent and quarterly reporting, reporting by exception, and/or incorporating some kind of automation into the reporting process should be considered. Some jurisdictions questioned the need for monthly reporting if they report, and are paid on, a milestone basis.

In addition to the formal reporting requirements the Commonwealth monitors projects through monthly calls and site visits. Most jurisdictions found these interactions with the Commonwealth beneficial.

The Commonwealth acknowledged that the reporting provided by the jurisdictions is generally timely, high quality and relied upon. The information and evidence collected by the Commonwealth as part of the reporting requirements meets the requirements of Treasury and facilitates the efficient processing of project payments.

The Commonwealth sometimes requires ad-hoc data from the jurisdictions to inform investment decisions and communicate the benefits of the infrastructure investment program. The manner in which this data is collected and presented by the jurisdictions varies.

## 7. Milestone payments and reporting makes sense, but can cause difficulties with internal state/territory departmental processes

A milestone payment system was introduced in the current NPA whereby Commonwealth financial contributions are paid upon the completion of agreed project milestones. The Commonwealth requires evidence such as photographs to prove milestones have been met.

In general, jurisdictions have found the move to milestone reporting and payment mechanisms to be a sensible approach as it better aligns achievements on the project to funding contributions. However, adopting this approach has caused several process issues and there is scope to further refine and evolve the milestone payment system. The following issues were raised:

- ▶ **Reporting timeframes are misaligned with internal budget processes:** the timing and specific information required does not sequence well with jurisdictions' internal budget processes. This lack of coordination makes it difficult for jurisdictions to finalise financial reports and often reports are delayed and milestones are adjusted. Timing was also an issue for the Commonwealth, with tight timeframes to process movement of funds if projects are delayed or accelerated for incorporation into the Mid-Year Economic and Fiscal Outlook and the Commonwealth Budget.
- ▶ **Milestones are regularly adjusted:** milestones are adjusted on a regular basis and it was noted by some jurisdictions that the Commonwealth is flexible, both with milestone adjustments and delays in milestone reporting. While the regular adjustments of milestones was welcomed by jurisdictions, some commented that the milestone process feels artificial given the regularity with which milestones are adjusted.
- ▶ **Milestone payments can lead to inconsistent project cash flows:** some jurisdictions noted that the introduction of milestone reporting and payments has made it more challenging to manage project cash flows, particularly when the Commonwealth is the majority funder of a project. Jurisdictions with a short construction season due to the wet season or cold winter months noted that in practice they had a limited window in which project milestone activities could occur.

In addition to the points raised above, the current payment system does not provide the Commonwealth with information on how states and territories are tracking towards milestone payments or progress made in reaching annual expenditure allocations.



## Financial Arrangements

### 8. There are mixed views and experiences in regard to the management of overspends and underspends on projects and the sharing of cost risks

Under the NPA the Commonwealth *may* reallocate underspends to the jurisdiction and/or the project in which they are incurred. In practice, jurisdictions' experience with the management of under and overspends is varied:

- ▶ Some jurisdictions felt that the process for managing over- and underspends is not equitable, with overspends incurred by the jurisdictions and underspends shared with the Commonwealth.
- ▶ Some jurisdictions commented that while the NPA stated that underspends 'may' be reallocated to the jurisdiction, in practice this has been interpreted as 'must'. Some jurisdictions noted that they often put forward a proposed list of projects to redirect underspends at the time they are reported to the Commonwealth.

Most jurisdictions recognised the need to incentivise parties to avoid project cost overruns, and where possible, deliver project cost savings.

Some jurisdictions questioned the fairness of the cost risk sharing arrangements and raised the following issues:

- ▶ **Locking in funding contributions too early increases risk:** the point in time in which funding contributions are locked in can have a material impact on the level of cost risk borne by jurisdictions. Locking in the funding amounts based on preliminary designs and cost estimates before rigorous analysis is undertaken creates unnecessary cost uncertainty for all parties.
- ▶ **Jurisdictions incur risks beyond their control:** Some jurisdictions felt they should only incur the cost risk associated with the aspects of project delivery which are in their control (i.e. project management risks). Risks for which jurisdictions have little or no control over (i.e. property, market risks) should be shared with the Commonwealth.

Some jurisdictions also noted that the Commonwealth's P50 and P90 cost estimation requirements had increased the rigour of their internal cost and risk management processes which they felt was beneficial and had improved their project management and delivery capabilities.

Some jurisdictions also noted that the Commonwealth's intent to be an equity investor in infrastructure should, in future, impact its approach to underspends and overspends, noting that an equity interest usually involves sharing in construction cost risk.

## 9. Horizontal Fiscal Equalisation (HFE) creates a disincentive for jurisdictions to apply for infrastructure funding from the Commonwealth Government, especially for projects not on the National Land Transport Network

Several jurisdictions raised concerns with the HFE process indicating that Commonwealth funding for projects not on the National Land Transport Network<sup>3</sup> leads to a reduction in Commonwealth HFE payments. This reduction in HFE payments is a disincentive to seeking Commonwealth government funding contributions. In one particular case a jurisdiction rejected Commonwealth funding due to HFE implications.

HFE refers to the principle that “State governments should receive funding from the pool of GST revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.”<sup>4</sup>

Some jurisdictions noted that in practice the Commonwealth Grant’s Commission’s (CGC’s) implementation of HFE provided a disincentive for jurisdictions to seek funding for projects not part of the National Land Transport Network. The CGC includes fifty per cent of payments for construction of national network projects for the purposes of calculating HFE. In contrast, one hundred per cent of Commonwealth support for off-network projects is included. In effect this means that a jurisdiction’s GST share is impacted differently when Commonwealth funded projects were on the National Land Transport Network, compared to those that were not.

This arrangement gives prominence to the National Land Transport Network which can sometimes conflict with the Commonwealth’s broader policy agenda and project priorities, noting that more projects focussing on urban mass transit are now considered a priority and that these projects generally do not form part of the National Land Transport Network.

## 10. Several jurisdictions considered the Commonwealth’s maintenance funding to be inadequate and not keeping pace with network expansion

Jurisdictions raised several concerns with regard to maintenance funding provided by the Commonwealth:

- ▶ **Insufficient level of funding:** the current level of maintenance funding is insufficient to maintain the National Land Transport Network. As the Network grows, this problem is further exacerbated. The declining level of funding has raised questions in regard to the Commonwealth’s intent and role in maintenance funding.
- ▶ **Funding uncertainty:** there is uncertainty in regard to the quantum of funding that will be provided by the Commonwealth in any given year. The Commonwealth’s maintenance contribution is \$350 million per annum.

<sup>3</sup> The National Land Transport Network is a defined national network of important road and rail infrastructure links and their intermodal connections. The Network is determined by the Minister under the National Land Transport Act 2014.

<sup>4</sup> Commonwealth Grants Commission, available at:

[https://cgc.gov.au/index.php?option=com\\_content&view=article&id=258&Itemid=536](https://cgc.gov.au/index.php?option=com_content&view=article&id=258&Itemid=536)

- ▶ **Funding formula:** Some jurisdictions raised concerns with the funding formula and commented that it was too simplistic and/or did not recognise the unique characteristics of jurisdictions. Some jurisdictions feel disadvantaged by the formula used, as they believe it is biased towards higher-density road usage.
- ▶ **Maintenance importance:** there is broad recognition from jurisdictions that network renewal and maintenance is important, albeit the funding responsibility requires further clarification. Some jurisdictions supported greater prominence of maintenance funding in the NPA.
- ▶ **Alignment with broader policy agenda:** The Commonwealth's intent to be an equity investor in infrastructure, and its advocacy for infrastructure with higher ongoing maintenance and operating costs (i.e. rail and technology based infrastructure) needs to be better aligned with the level of funding available for maintenance. Generally, the role and interests of an equity investor continue well beyond the construction of an infrastructure asset to include its operation and maintenance.

## 11. Delays in gaining project funding approvals can be compounded in delivery due to the short construction season in some jurisdictions and high levels of activity in the construction market

Some jurisdictions raised delays in funding approvals as problematic and felt they could not enter into delivery contracts with constructors without first obtaining funding approvals from the Commonwealth. This is especially the case in instances where the Commonwealth is the majority funder of a project and the state or territory is not able to bear the cost risk of projects independent of the Commonwealth. The delays in funding commitments from the Commonwealth under these circumstances translated into delivery delays.

This problem is further exacerbated by the short construction season experienced by several jurisdictions due to weather conditions that prohibit construction at certain times of the year. This includes the wet season in northern Australia and winter in Tasmania and the ACT. At times, delays in project approval and commencement processes may mean that the construction season window is 'missed' and delays are compounded.

## Timeframes

### **12. Continuing to extend the NPA beyond the construction stage of the project lifecycle is welcome**

Jurisdictions welcomed the involvement of the Commonwealth in funding pre-construction activities such as corridor preservation, and post-construction activities such as maintenance and operations as being consistent with achieving the stated objectives and outcomes of the NPA. It is also consistent with other broad trends towards better use of existing assets and reforming how infrastructure is used.

The funding provided under the NPA includes funding for activities across the lifecycle of infrastructure investment such as Business Case development and planning, corridor protection, construction and maintenance. Despite this, many jurisdictions viewed the NPA primarily as a construction funding mechanism.

Future mobility trends are likely to shift transport solutions from capital intensive infrastructure investments to a broader range of technology and data driven solutions. This will include solutions that focus on getting better utilisation from existing assets. Extending the focus of the NPA beyond the construction stage will be important to enabling and encouraging a broader range of technology and data driven solutions that use existing assets.

### **13. A five-year timeframe for the NPA, combined with annual funding allocations, is not well suited to the nature of infrastructure planning and delivery**

Several jurisdictions felt that the fixed five-year program for the NPA and annual funding allocations did not align well to the long-term planning approach adopted by several jurisdictions.

The five-year time period combined with annual funding allocations does not give governments or the construction market any certainty in regard to funding availability to complete larger projects that stretch beyond the life of the NPA or funding commitment in the schedule.

The fixed five-year NPA also impacts on government's ability to interact with the construction market. Across Australia there is a high level of infrastructure construction activity and it is in governments' best interests to set out a long term infrastructure pipeline to enable the market to prepare to deliver the future construction pipeline. In this context, the five-year time period of the NPA can inhibit jurisdictions ability to signal the construction market in regard to long term infrastructure construction pipelines.

An aerial photograph of a multi-lane highway curving through a landscape at sunset. The sun is low on the horizon, creating a warm, golden glow and long shadows. Several cars are visible on the road. A bright yellow rectangular frame is superimposed over the upper portion of the image, containing the word 'Appendix' in a grey, sans-serif font. Below the left side of the frame, there are three small yellow squares.

# Appendix

# Review Questions

## NPA REVIEW QUESTIONS

1. Has the NPA and the successful delivery of projects through the NPA been effective in contributing towards achieving the objectives and outcomes of the agreement?
2. What has been your experience with regard to the performance monitoring and reporting arrangements (financial and other), including quality, timeliness, accuracy and appropriateness of reporting arrangements?
  - a. To what extent have the performance monitoring and reporting arrangements assisted or hindered the achievement of the objectives?
  - b. Do the reporting requirements align with your standard practices for data collection and performance monitoring?
  - c. Please provide any additional other feedback on the efficiency of performance monitoring and reporting requirements under the NPA.
3. What has been your experience with regard to the financial arrangements, including financial contributions and project funding arrangements?
4. What are your views on maintenance funding arrangements and reporting requirements?
5. Are the governance arrangements, roles and responsibilities of parties to the agreement clear, suitable and working effectively?
6. What has been your experience with regard to complying with NPA Notes on Administration, including preparation of Project Proposal Reports, National Land Transport Network maintenance and cost estimation?
7. From your perspective, has the NPA and associated Notes on Administration improved your project management and other related processes?
8. Please provide any other feedback on the appropriateness or efficiency of the NPA.
9. Please provide any other feedback on issues that have arisen for your agency in regard to the NPA, including any technical matters as appropriate.

## Notice

Ernst & Young was engaged on the instructions of the Department of Infrastructure, Regional Development and Cities to conduct a review of the National Partnership Agreement on Land Transport Infrastructure ("**Project**"), in accordance with the Work Order dated 6 April 2018.

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young's report dated 11 July 2018 ("**Report**"). The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since the date of the Report to update it.

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