

2023

**THE LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY**

TENTH ASSEMBLY

**Standing Committee on Public Accounts - Report 15 – Inquiry into Auditor-General's
Report No. 8 of 2021: Canberra Light Rail Stage 2A: Economic Analysis**

GOVERNMENT RESPONSE

**Presented by
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Minister for Transport and City Services
June 2023**

Introduction

In 2019, the ACT Government made the decision to invest in Light Rail Stage 2A as the first stage in delivering light rail to Woden.

Building light rail will help make Canberra a more connected, sustainable, and vibrant city.

Light Rail Stage 2 to Woden will provide more convenient and reliable transport options for people on the southside of Canberra, help prevent future traffic congestion, and cut transport emissions for a cleaner environment.

Linking Woden in the south through the city and to Gungahlin in the north, will create a central mass-transport spine from Gungahlin to Woden. This will mean that all Canberrans can travel to key destinations including employment centres north to south, along the line in a single trip. The line will be integrated with rapid and local bus services, and in future, additional light rail lines are planned to other Town Centres and destinations.

Light rail to Woden is the largest infrastructure project to be delivered in Canberra. The first stage of work – Stage 2A – involves delivering 1.7 kilometres of track connecting the current Alinga Street terminus to Commonwealth Park. This will include three new light rail stops – at Edinburgh Avenue, City South and Commonwealth Park.

While these works are underway, detailed design and approvals will continue to take light rail all the way to Woden, through the Parliamentary Triangle, in Light Rail Stage 2B.

The ACT Government prepared a detailed Business Case for the delivery of Stage 2A to support government decision-making about the costs and benefits of this project, as well as options for its delivery and timing. This project delivers important benefits in better connecting Canberra's city to the lake and improving opportunities for public transport, and active travel along the alignment. However, its full benefits must be considered in the context of the complete light rail alignment from the City to Woden.

The 2019 Light Rail Stage 2A Business Case (Business Case) was developed to inform an investment decision at a particular point in time. As with other

major infrastructure projects, it is not intended to be a living document that is constantly updated.

The ACT Government has a commitment to transparency when it comes to light rail. When the decision was made to invest in Stage 2A, the Business Case was publicly released, including benefit cost ratios for Stage 2A from the City to Commonwealth Park, and for the full Stage 2 alignment from the City to Woden. Certain disaggregated figures and cost estimates were redacted to protect the commercial interests of taxpayers as procurement activities had not yet commenced. The publication of the Business Case demonstrated the ACT Government's openness to the project and continued the strong track record of transparency seen with the public release of the full business case for Stage 1.

Since the release of the Stage 2A Business Case, Major Projects Canberra has significantly progressed design and planning activities. This has identified project delivery requirements and design options which had not been fully scoped at the time the Business Case was prepared. In parallel with the ACT Government's investment in light rail, state and territory governments across Australia are currently undertaking an unprecedented level of infrastructure investment and delivery. High levels of inflation and continued instability in the global supply chain continue to place upward pressure on pricing. As a combined result of these factors, the ACT Government expects that project delivery costs will differ from those initially estimated during preparation of the Business Case in 2019.

The Commonwealth Government has provided \$218.39 million of funding towards the delivery of Stage 2A. This is a welcome and important contribution to delivering better public transport for Canberra's southside. This funding was also not captured by the Business Case in 2019 due to the timing of the Commonwealth's announcement.

The ACT Government will continue to provide the Canberra community with updated information on the project's costs once we have concluded procurement and commercial negotiations and reached contract award. This will be through established reporting, procurement and public disclosure channels.

Recommendations and Government Response

Recommendation 1

The Committee recommends that the ACT Government agree to all of the Auditor-General's recommendations.

Government Position: **Not Agreed**

The ACT Government agreed (or agreed-in-principle) to all of the Auditor-General's recommendations except for 1b which recommended that:

- "Major Projects Canberra should review and update the economic analysis associated with Light Rail Stage 2A. In doing so, Major Projects Canberra should make publicly available the revised and updated economic analysis in an updated Stage 2A Business Case."

As outlined in the ACT Government's response to the Auditor-General's report, the economic analysis for Light Rail Stage 2A (Stage 2A) was prepared as a point-in-time undertaking as part of the City to Woden Light Rail: Stage 2A City to Commonwealth Park Business Case (Business Case).

The development of a business case is a discrete stage of the infrastructure investment lifecycle under the ACT Government's Capital Framework. The business case stage is used to assess the need for investment and the benefits that will result, identify and analyse options, and determine the recommended project option and the project scope. This stage also includes initial design development of the recommended project option to enable a robust estimate of the project's likely cost and delivery timeline.

Following the ACT Government's approval of the Business Case in 2019, a public version with redactions of commercially sensitive information was released and the project moved into the subsequent stages of the infrastructure investment lifecycle: procurement and implementation. This involves finalising the design, constructing the project and putting it into operation, assessing the project's processes and outcomes, including monitoring and reporting on benefits realisation, and feeding back lessons learnt to future projects.

The ACT Government is now focused on obtaining works approval and finalising procurement and contracting activities for the design and construction of Stage 2A. The ACT Government has signed a contract with our long-time delivery partner Canberra Metro for the procurement of additional light rail vehicles, retrofit of current and related modification works at the Mitchell depot.

The ACT Government does not propose to re-acquit the Business Case from 2019 or associated economic analysis as the project has moved past this stage. This analysis was only one of a number of inputs that informed the ACT Government's decision to progress with Stage 2A and the Commonwealth Government's decision to co-contribute funding to the project.

As part of the current stages of project delivery, Major Projects Canberra will continue to monitor all aspects of the development of Stage 2A in accordance with the governance arrangements as defined in the approved Business Case.

This includes monitoring costs as part of the ongoing procurement of Stage 2A, presenting project costs to Cabinet for consideration and agreement, and the public notification of budget estimates,

expenditure, and project contracts – including associated contract costs, in line with ACT Government budget, annual reporting and procurement requirements.

Recommendation 2

The Committee recommends that the ACT Government proceed with construction of the Light Rail Stage 2A.

Government Position: **Agreed**

The ACT Government is committed to bringing light rail to Woden which is being delivered in two stages for a faster project delivery given Commonwealth Government planning requirements through the Parliamentary Triangle and Parliamentary Zone.

The first stage, Stage 2A will extend the line from the City to Commonwealth Park. As part of Stage 2A, three new stops at Edinburgh Avenue, City South and Commonwealth Park, will extend the light rail network by 1.7 kilometres. In relation to these three stops the:

- Edinburgh Avenue Stop will service residents and major businesses in the area, along with the Australian National University;
- City South Stop will improve access to the eastern and southern areas of the city and provide additional access to the city's west; and
- Commonwealth Park Stop will offer a convenient way to reach lakeside events, attractions and parks.

Stage 2A is jointly funded by the Commonwealth and ACT Governments.

As part of the planning approval process, a works approval was submitted to the National Capital Authority (NCA) and a development application to the ACT Planning and Land Authority (ACTPLA). The documentation submitted as part of the works approval and development application included plans, designs and an environmental assessment.

The ACT Government will proceed with finalising the procurement, contracting and construction of Stage 2A following works approval.

Recommendation 3

The Committee recommends that the ACT Government provide an explanation of the methodology, and explicit definitions of costs and benefits included in the Light Rail Stage 2A Economic Analysis and make all non-commercially sensitive information publicly available.

Government Position: **Agreed**

The economic analysis was developed in accordance with established national guidance and used to inform the Business Case and ACT Government's investment decision in 2019 for Stage 2A.

Under the ACT Government's Capital Framework, various detailed technical guidelines are applied in the economic appraisal of projects, including specifically for transport project appraisals:

- *Transport for New South Wales: Principles and Guidelines for Economic Appraisal of Transport Investment and Initiatives* (March 2016)
 - Provides guidance on the estimation and monetisation of benefits and economic costs relating to transport projects. This includes a catalogue of parameter values

and valuation methodologies, including the value of time for business and private purposes, vehicle operating cost parameters and parameters for congestion, safety and environmental impacts.

- *Australian Transport Assessment and Planning (ATAP) Guidelines*
 - Provides tools, techniques and parameter values for economic appraisals relating to transport projects.

- *Australian Transport Council: National Guidelines for Transport Systems Management in Australia, 2006*
 - Provides a framework for appraisal of transport investment and initiatives, including detail on techniques for estimating benefits relating to transport investments.

These established and nationally accepted methodologies were adopted for the economic appraisal of Light Rail Stage 2, a summary of which can be found in section 7.2 (Methodology) of the Business Case.

Further information on costs and benefits included in the economic analysis are found in section 7 (Economic Analysis) of the Business Case on pages 123-145, in particular:

- Section 7.4 (Project Costs)
- Section 7.5 (Project Benefits)

In summary, the project costs include:

1. Capital costs: as set out in detail in section 6.2 on pages 110-115 of the Business Case and summarised in Figure 5-4 on page 86 as comprising:
 - a. Early works
 - b. Civil Infrastructure: track, structures, depot and roads
 - c. Light Rail Vehicles
 - d. Power
 - e. Systems Infrastructure: communications and signalling
2. Operating and maintenance costs: as set out in detail in section 6.3 on pages 115-118 of the Business Case and comprising:
 - a. Operating costs: Salaries and wages, depot and stabling costs, electricity supply and special events costs
 - b. Operator mobilisation costs
 - c. Maintenance costs: including vehicles and infrastructure
 - d. Lifecycle costs
3. Development costs: as set out in section 7.4.3 on page 138 of the Business Case representing the additional upfront cost (in present value terms) for road and services connections associated with a more accelerated development of the Acton Waterfront than would be the case without light rail.

In summary, the project benefits in the economic analysis were captured across these categories:

1. Transport benefits: delivered due to improvements in the transport system, including direct journey experience benefits such as travel time savings, reliability improvements and external benefits such as reduced congestion.

2. City shaping benefits: resulting from land use change generated by the development of the light rail project including land value uplift resulting from increased densification and infrastructure costs savings resulting from economies of scale in infrastructure provision.
3. Wider economic benefits: resulting from improved business-business and business-workforce connectivity consisting of transport and land use agglomeration benefits.

All information which is not commercially sensitive has been made publicly available through the publication of the 185 page (redacted) Business Case which can be found on the Major Projects Canberra website at https://www.act.gov.au/_data/assets/pdf_file/0010/1758178/Stage-2A-Light-Rail-Business-Case-redacted.pdf.

Recommendation 4

The Committee recommends that the ACT Government ensures that an economic analysis of a city-wide network be provided alongside any single stage analysis for the light rail project.

Government Position: **Not Agreed**

The merits of a city-wide Canberra light rail network have been well established. This includes through assessments in:

- Planning for a more integrated city in the Sustainable Transport Plan (2004) which identified corridors for high capacity public transport.
- The submission to Infrastructure Australia identifying the concept of a city-wide light rail network in our developing activity corridors (2008).
- Feasibility studies and investigations informing the Light Rail Masterplan (2013).

The ACT Government notes there are challenges with network based economic analysis if historic and completed stages are to be included. This would require the development of a counterfactual set of transport, population and land use assumptions on the hypothetical basis that previous stages of light rail were not developed.

As the Auditor General's report notes (pages 6 and 51):

- No example of blending a past investment with a future investment is known; and
- Previous stages have no relevance to future investment decisions as the costs of earlier stages are 'sunk' and cannot be recovered.

Recommendation 5

The Committee recommends that the ACT Government reduce its reliance on external consultants by developing more specialist in-house capacity.

Government Position: **Agreed**

In July 2019 the ACT Government established Major Projects Canberra to procure and deliver infrastructure projects designated by the Chief Minister. This includes Light Rail Stage 2.

Major Projects Canberra procures specialist technical skills where required to support the delivery of projects, drawing on international and national capabilities and experiences in specific infrastructure sectors.

Recommendation 6

The Committee recommends that the ACT Government undertake a review into whether the Infrastructure Australia discount rate guidance is appropriate for evaluating future stages of Light Rail.

Government Position: **Existing Government Policy**

The ACT Government's updated Capital Framework, implemented in late 2022, recommends that capital projects use discount rates of 7 per cent with sensitivity testing at 4 per cent and 10 per cent for the economic appraisal, which is in-line with Infrastructure Australia guidance.

Infrastructure Australia, as well as Australia's State and Territory treasury and finance departments, advise the use of a discount rate. The rate of 7 per cent which is advised for most public infrastructure projects has been in place for a number of decades.

The *Infrastructure Australia Act 2008* (Cth), requires that Infrastructure Australia's approved cost-benefit analysis (CBA) methodology 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 the Centre for International Economics (CIE) and published in March 2020. That review recommended that Infrastructure Australia consider whether the current discount rates in the Infrastructure Australia Assessment Framework are appropriate given reductions in the cost of capital in financial markets and for regulated utilities.

As part of the review process Infrastructure Australia engages with Commonwealth Treasury and the States and Territories for their views. This includes ACT Treasury.

While Commonwealth Treasury has not advised Infrastructure Australia to amend the discount rate. The ACT Government notes that in its Guide to Cost-Benefit Analysis released in February 2023, the NSW Government updated its discount rate such that economic appraisals and evaluations must use a 5 per cent per annum real central estimate social discount rate. Sensitivity testing is to be undertaken using a lower bound of 3 per cent and an upper bound of 7 per cent per annum (in real terms). The Guide notes the parameter will be periodically reviewed. The ACT Government will monitor whether this is adopted by Commonwealth Treasury and Infrastructure Australia for application at a national level.

Recommendation 7

The Committee recommends that the ACT Government apply sensitivity analyses for a range of discount rates presented in business cases for future large, long term projects of a similar nature of Light Rail Stage 2A.

Government Position: **Existing Government Policy**

See response to Recommendation 6. The Capital Framework recommends sensitivity testing at 4 per cent and 10 per cent. Additionally, there is scope to alter these parameters on a project-by-project basis following Treasury consideration.

The ACT Government's Capital Framework provides for the use of a 7 per cent central discount rate and sensitivity analysis at 4 per cent and 10 per cent.

Section 7.5.5 (Sensitivity Analysis) on page 145 of the Business Case shows the Benefit to Cost Ratio (BCR) for Stage 2 of Light Rail (City to Woden) at these different discount rates:

- A BCR of 1.5 using a 4 per cent discount rate
- A BCR of 1.0 using a 7 per cent discount rate
- A BCR of 0.8 using a 10 per cent discount rate.

This is a long established policy position with similar analysis set out in section 6.3 (Sensitivity Analysis) on page 104 of the Business Case for Stage 1 of Light Rail (City to Gungahlin) which presented:

- A BCR of 1.5 using a 4 per cent discount rate
- A BCR of 1.2 using a 7 per cent discount rate
- A BCR of 0.9 using a 10 per cent discount rate.

Recommendation 8

The Committee recommends that the ACT Government publish a benefits realisation plan for Light Rail stage 2A as soon as possible.

Government Position: Agreed in-principle

Benefits realisation reporting is currently provided to the Light Rail Project Board quarterly. The report is currently under review and is considering how best to incorporate ABS Census data recently made available. Government intends that the resulting revised benefits realisation reporting will also be applied to Light Rail Stage 2A. Government will publish a “Benefits Realisation – Snapshot” report, for the integrated Light Rail program (Stages 1 and 2A), approximately one year after passenger operations commence for Stage 2A, as it did for Stage 1 in May 2020.

The ACT Government supports the continuation of a structured approach to embedding and improving benefits realisation processes for key infrastructure investments in the ACT.

Consistent with the approach previously established in Light Rail Stage 1, the Government agrees that a Benefits Realisation Plan (BRP) for Light Rail Stage 2A will be implemented.

The Plan will identify key metrics for measuring project benefits and establish a governance and reporting arrangements for the ongoing assessment of the actual benefits and economic costs realised by the project against expected benefits and economic costs.

CMTEDD (ACT Treasury) is leading the development of the plan, which will be monitored through the Light Rail Advisory Board. As with Light Rail Stage 1, it is envisaged this Benefits Realisation Plan will be developed subsequent to the main works contract for the project being entered into.

The ACT Government will publish a summary of the Benefits Realisation Plan.