

Rural & Regional Affairs and Transport Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Supplementary Budget Estimates 2016 - 2017
Infrastructure and Regional Development

Question no.: 27

Program: N/A

Division/Agency: Infrastructure Australia

Topic: Melbourne Metro

Proof Hansard Page: Written (17 October 2016)

Senator Rice, Janet asked:

Senator RICE: Can you take on notice the list of the documents you have been given or have requested from the Victorian government for the Melbourne Metro assessment. If you could get that back to us today, that would be terrific.

Mr Parkinson: We have quite a list of documents for that project. We can give that to you.

Senator RICE: In particular in that list of documents have you received the independent peer reviews that were done on the transport and economic modelling of the project?

Mr Parkinson: We do have a peer review of that project. Whether it fits your idea of the category of peer review I am not certain. We can certainly include that document in the list of documents we have received.

Answer:

Infrastructure Australia has received the following documents in support of its evaluation of the Melbourne Metro business case:

- Melbourne Metro Business Case Volume 1
- Melbourne Metro Business Case Volume 2
- Melbourne Metro Business Case Economic Evaluation Report
- Melbourne Metro Economic Evaluation Peer Review Report
- Melbourne Metro Patronage Forecasting Final Report
- Melbourne Metro Validation Report
- Transport Demand Forecasting for Melbourne Metro – Forecasting Report
- Transport Modelling for Melbourne Metro – Peer Review of Forecasting Reports
- Transport Modelling for Melbourne Metro – Peer Review of Forecasting Reports – Addendum
- Melbourne Metro Project – Peer Review of Transport Forecasting Reports – Response to Peer Review Report
- Validation Report for Melbourne Metro Strategic Transport Model
- Melbourne Metro Project Specific Model Validation Criteria
- Melbourne Metro Project Strategic Model Demand Forecasting Specifications
- Recalibration and Revalidation of the Melbourne Integrated Transport Model
- Melbourne Metro Wider Economic Benefits Final Report
- Melbourne Metro Rail Risk Management Policy
- Melbourne Metro Rail Packaging and Procurement Stage 2 Market Sounding Report

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Question no.: 28

Program: N/A

Division/Agency: Infrastructure Australia

Topic: WestConnex capital cost inclusions

Proof Hansard Page: Written (17 October 2016)

Senator Sterle, Glenn asked:

Senator STERLE: I want to go back to Senator Farrell's questions to Infrastructure Australia. We have a copy of 'table 13.6 Capital costs for the full concession period', talking about WestConnex. Dot point 2 clearly states:

For the purpose of this analysis capital costs exclude land acquisition, network enhancements and development costs.

Yet you are saying it is all included. This is for the \$16.812 billion.

Mr Parkinson: As I said, I did not have the table in front of me, so if you are referring to the detail of that table I would have to take that on notice.

Senator STERLE: Can I give you a copy of it now, because what this says is completely different to the evidence that you just gave.

Mr Parkinson: The evidence that I gave was based on that cost including all of those costs.

Senator STERLE: Sure, but we were led to believe that over 400 homes had been—what was the word you used?

Mr Parkinson: Acquired.

Senator STERLE: Yes, 'acquired'. So if that is in there, that is fine. But if it is not—I do not know the area—but I believe it would be an extremely larger figure than the \$16.812 billion. So we need to clarify that.

Mr Parkinson: We will take that on notice.

Answer:

The \$16.8 billion (nominal) capital cost estimate for the WestConnex project, as set out in the November 2015 business case, includes property acquisition costs. The NSW Government has advised that the property budget within the \$16.8 billion cost estimate is \$1.4 billion.

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Question no.: 29

Program: N/A

Division/Agency: Infrastructure Australia

Topic: Northern Territory business cases

Proof Hansard Page: Written (17 October 2016)

Senator McCarthy, Malrindirri asked:

Senator McCARTHY: What was the last Infrastructure Australia case that you had for the Northern Territory?

Mr Parkinson: Tanami Road is the only one in the last year. There may be some previously, but we would have to take that on notice.

Answer:

The business case for the Tanami Road upgrade is the only full business case which Infrastructure Australia has received from the Northern Territory Government in the last five years. Infrastructure Australia has also received a number of initiative submissions from the Northern Territory Government. Initiatives are potential solutions for nationally significant infrastructure problems or opportunities, for which a business case is yet to be developed. The Infrastructure Priority List currently includes Initiatives for *Darwin region water supply upgrades* and *Provision of enabling infrastructure and essential services to remote NT communities (Wadeye, Tiwi Islands, Jabiru)*.

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Question no.: 30

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Tanami Road business case

Proof Hansard Page: Written (17 October 2016)

Senator McCarthy, Malrindirri asked:

Senator McCARTHY: In terms of the submission surrounding the Tanami Road project, it talks about it aligning with closing the gap for Indigenous communities. Can you explain how that will happen?

Mr Parkinson: I am not familiar with that aspect of the business case to be able to comment on that. We could have a look at that.

Senator McCARTHY: Could that be taken on notice? I would like to understand. Is there anyone else who can explain that?

Senator STERLE: I think that is a very good question. We all share that concern.

Mr Parkinson: We will certainly take that on notice.

Answer:

The Northern Territory Government's June 2015 business case for the Tanami Road upgrade indicates that one of the project goals is to deliver on 'Closing the Gap' targets. The business case indicates this would be done by creating opportunities that are important to Indigenous people in the region, including by improving travel times and safety and thus enhancing access to employment and enterprise; country (for cultural obligations); education; and health facilities and services. The Business Case also identifies potential direct employment opportunities for local people in the delivery phase of the project.

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Question no.: 31

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Tanami Road alignment with Closing the Gap

Proof Hansard Page: 17 (17 October 2016)

Senator McCarthy, Malrindirri asked:

Senator McCARTHY: According to the submission online: 'it aligns with supporting the Australian government's closing the gap for Indigenous communities'. I would like to understand what that means and how that breaks down and which communities are we talking about in terms of the Tanami Road project.

Mr Parkinson: I think you referred to material that Infrastructure Australia has published online?

Senator McCARTHY: Yes.

Mr Parkinson: Okay. Let me just clarify. That is an earlier review of an earlier business case. That is not in respect of the current review of the updated business case.

Senator McCARTHY: So does that mean that the closing the gap component is not relevant?

Mr Parkinson: No, it does not. I cannot confirm whether the updated business case addresses the same issues in the same way.

Senator McCARTHY: I would be interested to know if it does or does not. Could you provide that response.

Mr Parkinson: Yes. We could certainly have a look at that and get back to you.

Answer:

Refer to response to 30.

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Question no.: 32

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Western Distributor assessment documents

Proof Hansard Page: 17 (17 October 2016)

Senator Rice, Janet asked:

Senator RICE: How is the assessment of the Western Distributor proceeding?

Mr Davies: That is another one where we are in the middle of a process of toing and froing with the Victorian government—the normal process of doing our due diligence reviewing the business case, asking questions, getting the answers and so on.

Senator RICE: Can you tell me—and maybe you will again need to take this on notice—as to what documents you have requested from or that have been provided by the Victorian government to help with your assessment?

Mr Parkinson: Senator, we could take on notice the documents that we have been provided. Again, it is quite a long list of documents.

Answer:

Infrastructure Australia has received the following documents in support of its evaluation of the Western Distributor business case:

- Western Distributor Business Case 2015
- Attachment A – Investment Logic Map
- Attachment B – Summary of Transurban Proposal
- Attachment C – Reference List
- Attachment D – Western Distributor Technical Options Report
- Attachment D2 – Monash Freeway Upgrade Technical Options Report
- Attachment E – Western Distributor Risk Adjusted Cost Estimate Report
- Attachment F – Western Distributor Project Tolling Structure
- Attachment G – Tolling Operations Cost Model for Western Distributor
- Attachment H – Western Distributor Network Impact Assessment
- Attachment I – Western Distributor Western Freight Impact Assessment
- Attachment J – Economic Assessment Report
- Attachment K – Western Distributor Preliminary Social Impact Assessment
- Attachment L – Western Distributor Preliminary Environmental Assessment
- Attachment M – Land Use Report
- Attachment N – Delivery Options Report
- Attachment O – Financial Analysis Report
- Attachment P – Accounting Treatment Guidance
- Attachment Q – Procurement and Planning Risk Register
- Attachment R – Public Interest Test
- Attachment S – Planning Approval Pathways Report
- Attachment T – Governance Model Options
- Attachment U – Communications and Stakeholder Engagement Strategy

Infrastructure Australia has also requested, but not yet received, peer review reports associated with the Western Distributor business case.

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Question no.: 33

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Western Distributor modelling

Proof Hansard Page: 18-19 (17 October 2016)

Senator Rice, Janet asked:

Senator RICE: So is it of concern to you that you do not have the full transport modelling and the full economic modelling that has been done for the Western Distributor? In doing your due diligence, does that impact upon the quality of the assessment that you can do?

Mr Davies: We continuously to and fro until we have got the information that we feel is necessary to complete our due diligence.

Mr Parkinson: Can we just clarify, Senator, that we would not say that we do not have all of the economic modelling material or transport modelling material that is relevant for the assessment. You are correct. There may be other documents out there that we have not seen. That does not mean that we do not have everything that we do need. That assessment is still underway.

Senator RICE: If you could list for me all the documents that you do have—in particular, there are documents that are publicly known that are not available, that have been redacted from the business case, and then there are these independent peer reviews that were not even listed as having been undertaken. If you could list all the documents that you do have and the documents you have requested, that would be valuable.

Mr Parkinson: Yes.

Answer:

Infrastructure Australia has received the following documents in support of its evaluation of the Western Distributor business case:

- Western Distributor Business Case 2015
- Attachment A – Investment Logic Map
- Attachment B – Summary of Transurban Proposal
- Attachment C – Reference List
- Attachment D – Western Distributor Technical Options Report
- Attachment D2 – Monash Freeway Upgrade Technical Options Report
- Attachment E – Western Distributor Risk Adjusted Cost Estimate Report
- Attachment F – Western Distributor Project Tolling Structure
- Attachment G – Tolling Operations Cost Model for Western Distributor
- Attachment H – Western Distributor Network Impact Assessment
- Attachment I – Western Distributor Western Freight Impact Assessment
- Attachment J – Economic Assessment Report
- Attachment K – Western Distributor Preliminary Social Impact Assessment
- Attachment L – Western Distributor Preliminary Environmental Assessment
- Attachment M – Land Use Report
- Attachment N – Delivery Options Report
- Attachment O – Financial Analysis Report
- Attachment P – Accounting Treatment Guidance
- Attachment Q – Procurement and Planning Risk Register
- Attachment R – Public Interest Test
- Attachment S – Planning Approval Pathways Report
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Infrastructure Australia has also requested, but not yet received, peer review reports associated with the Western Distributor business case.

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Question no.: 34

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Western Distributor economic modelling

Proof Hansard Page: 19 (17 October 2016)

Senator Rice, Janet asked:

Senator RICE: There is another criticism of the project that has been put to me and I wonder how you consider it. I loathe to get into too much of the detail, but it is detailed in Attachment J of the economic modelling, looking at cost-benefit analysis. It is with regard to the inclusion of an unusual extra benefit of the road, and that is the extra value that it is said people will give to travelling in uncongested traffic. That is the travel time savings from reduced traffic congestion. Do you know about this particular aspect of one of the economic benefits that has been included in the economic modelling?

Mr Parkinson: In broad terms, I would be loath to make reference to that specific attribute, since I have already made an assumption which proved to be incorrect on WestConnex.

Senator RICE: I have been told that consideration of this benefit has not been used in an Australian project before and it is not standard practice, and yet it makes up 10 per cent of the economic benefits of the road.

Mr Parkinson: Certainly, it is standard practice to include travel time savings.

Senator RICE: Yes, but this is an extra benefit, not just travel time saving. It is the extra benefit that people are said to give. It is the top-up value if they are travelling on a road that is uncongested.

Mr Parkinson: We would have to have a look at that and take that on notice.

Senator RICE: Take that on notice and tell me what your assessment is as to whether this would be appropriate. Is it an appropriate thing to use in an economic assessment?

Answer:

Infrastructure Australia is currently assessing the Western Distributor business case, including the consideration of relevant costs and benefits.

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Question no.: 35

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Melbourne Metro 2

Proof Hansard Page: 19 (17 October 2016)

Senator Rice, Janet asked:

Senator RICE: In response to your answer when you were talking about Melbourne Metro, you said you knew of the KPMG economic peer review but not of the peer review that was done by John Allard. Will you be requesting that peer review?

Mr Parkinson: As indicated, we are trying to move that evaluation towards its conclusion. We would have to consider whether we needed any additional information to be able to finalise that.

Senator RICE: Can you take on notice then whether you will be requesting that peer review?

Mr Parkinson: As I said, we would only request that peer review if we thought there were particular—

Senator RICE: That was released under a freedom of information request to my colleague, Ms Hartland. I put it to you that it may be valuable to you to include in your assessment.

Mr Parkinson: Thank you, Senator.

Answer:

Infrastructure Australia received this peer review as part of its ongoing engagement with the proponent.

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Question no.: 36

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex capital costs 1

Proof Hansard Page: 22 (17 October 2016)

Senator Sterle, Glenn asked:

Senator STERLE: I want to go back to the table that I gave a copy of to Infrastructure Australia. It was taken from page 240 of the WestConnex updated strategic business case: November 2015. I really am struggling, Mr Parkinson. Table 3.16 states:

For the purpose of this analysis capital costs exclude land acquisition, network enhancements and development costs.

Has someone had the opportunity to correct the record for me and say, 'This is wrong,' or, 'Maybe we've given you the wrong answer'? I just want to clear it up, Mr Parkinson.

Mr Parkinson: Certainly, based on the table that we have, it is clear that these numbers do not include those additional costs. We would have to take on notice the costs that were included in our evaluation of the project and come back to you on those.

Answer:

Refer to response at 28.

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Question no.: 37

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex acquisition costs

Proof Hansard Page: 22, 27 (17 October 2016)

Senator Sterle, Glenn asked:

Senator STERLE: That is good, thank you. So we have corrected the record there. So I have been told, and could you confirm, that 427 houses have been 'aquired'—is that the right word?

Mr Parkinson: Acquired.

Senator STERLE: Acquired—whatever. Bought out, anyway.

CHAIR: I am not buying into that one.

Senator STERLE: There are 427?

Mr Parkinson: We would have to take on notice the precise number. I doubt very much that that was specified in the business case. We could check on what is in the business case for that, but it may well be that the New South Wales government, in progressing that project, has made some minor variations around that.

Senator STERLE: I suppose what I am just trying to clear up through you, Chair, is that there are 400-plus houses that have been bought, and I do not know what areas they are in. I believe that—you can take this on notice too—around 200 were heritage listed or something like that. I am not sure—you will find out for us. It would make, and this is not a hypothetical, a significant difference to the \$16.812 billion so far. Would the New South Wales government have provided that information to Infrastructure Australia?

Mr Parkinson: The New South Wales government provided the business case to us. As I said, we could check whether those details are set out at that level of detail in the business case. It would be normal to include those sort of costs. I do not know and I cannot verify at this point which of those costs were included in this business case.

...

Senator RICE: We have land acquisitions of 400 properties which, on the real estate estimate I have been given, would be around \$1.5 billion. Four hundred properties in Sydney do not come cheaply.

Mr Parkinson: As I said to Senator Sterle, we would have to take on notice what property acquisition costs are included and what are not in that \$16.8 billion.

Senator RICE: But we are looking at an order of about 1½ billion.

Answer:

The November 2015 WestConnex business case includes property acquisition costs as part of a broader project cost line item. These costs are commercial-in-confidence and have not been published. The business case does not specify the number of properties proposed to be acquired.

Subsequent to Infrastructure Australia's evaluation of the business case, the NSW Government advised that the property budget within the \$16.8 billion (nominal) capital cost estimate is \$1.4 billion.

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Question no.: 38

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex business case

Proof Hansard Page: 22-23 (17 October 2016)

Senator Sterle, Glenn asked:

Senator STERLE: I think, too, Mr Parkinson, that not only the land acquisition but also the network enhancements are not included in this, so we would need to know what that comes out at. What is the difference there, because I am sure that would be significant? Mr Parkinson: In fact quite a lot of the project is network enhancement, so it really comes down to a definitional question of which network enhancements are included and which are not—

Senator STERLE: Yes, of course.

Mr Parkinson: and that is not set out in this table. We would have to take that on notice and come back to you.

Senator STERLE: No, that is fair enough. And we would need, of course, the development costs. You are very clear that Infrastructure Australia has no reason to hide any truth, and I am glad the record is corrected now.

I would say that the figure that is going to come back is going to be significantly higher than \$16.812 billion.

We look forward to hearing back from you. Mr Parkinson, do you just want to comment?

Mr Parkinson: We can certainly clarify which of these costs are included in the business case. We cannot confirm whether we can come back to you with a figure of other costs which are not included in the business case because that would belong with the New South Wales government, which is the proponent.

.....

Senator STERLE: Oh, we are having a wink! Senator Abetz, leave him alone.

Mr Parkinson has made very clear the difference between the land acquisitions, the network enhancements and the development costs. He has said that Infrastructure Australia could say, 'What was included in the original business case?' What I am asking the department and what we, the committee, want to know is what those costs came out to be, because they are not included. Could you take that on notice for us?

Mr Mrdak: Certainly. I do apologise.

Answer:

Refer to response at 28.

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Question no.: 39

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Project cost estimates - P50 and P90

Proof Hansard Page: 23 (17 October 2016)

Senator Sterle, Glenn asked:

Senator STERLE: Of course, you would do. Is there a table or something you could supply to the committee that actually shows the projects that are P50 and those that are P90? Could you break that all down for us?

Mr Parkinson: We could certainly take that on notice. Most of them are at P50.

Answer:

Infrastructure Australia's assessment framework recommends that proponents provide both P50 and P90 cost estimates where available. The table below sets out whether P50, P90 or alternative cost estimates were used for the business case evaluation for the projects currently listed on the Infrastructure Priority List.

Project	Cost estimate provided in business case
M4 motorway upgrade (Parramatta to Lapstone)	P50 and P90
WestConnex	P50
Ipswich Motorway Rocklea–Darra	P50 and P90
M80 Ring Road upgrade	P90
Perth Freight Link	P50 and P90
Moorebank Intermodal Terminal	P50
Bruce Highway Upgrade – Caloundra Road to Sunshine Motorway	P50 and P90
M1 Pacific Motorway-Gateway Motorway Merge	P50 and P90
M1 Pacific Motorway upgrade – Mudgeeraba to Varsity Lakes	P50 and P90
Adelaide – Tarcoola Upgrade Acceleration	Single point cost estimate*
Eyre Infrastructure Project	Single point cost estimate*
Adelaide North-South Corridor Upgrade	P50 and P90
Forrestfield Airport Link	P90
Inland Rail	P50

* An estimate produced without reference to a probability distribution. These estimates are usually based on historical cost data and are appropriate for costs which are well understood and present minimal risk.

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Question no.: 40

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex benefits in business case

Proof Hansard Page: 29 (17 October 2016)

Senator Rice, Janet asked:

Senator RICE: It appears to be the case that there will be substantially increased costs, and there are other costs as well that do not appear to be included, such as the development cost of other network extensions. Certainly in the public sphere there is a case being put that needs to be addressed. We need to know, if it is not the case, that the cost of this project will not be well north of \$20 billion. Are you looking at scenarios where the benefits are considerably higher to make up for that? The benefits in the business case are at \$22 billion at the moment. You would need to have massively increased benefits in order to come in at a reasonable benefit-cost ratio.

Mr Parkinson: We are in danger of speculating on a different business case. The business case we have received is the one, as set out in our assessment, with the costs at \$16.8 billion and the benefits as set out in our assessment. That is what we have made the assessment on.

Senator RICE: What are the benefits as set out in that assessment?

Mr Parkinson: I have it broken down into various components, but I do not have the total in front of me.

Senator RICE: Can you add them up, please?

Mr Parkinson: We will get back to you in a moment after we perform that addition.

Answer:

Core benefits of the WestConnex project, as set out in the business case, are \$22.3 billion (present value at 7 percent real discount rate).

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Question no.: 41

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex capital costs 2

Proof Hansard Page: 28-29 (17 October 2016)

Senator Rice, Janet asked:

Senator RICE: So that is the capital costs of \$16.8 billion, but we have got land acquisitions as well, of 400 properties, which I am told are in the order of \$1.5 billion. Would they be a cost that you should be including in that?

Mr Parkinson: As we discussed previously—and I undertook to get back to Senator Sterle about details of which land acquisitions are included in the business case and, as we discussed, we could certainly request from New South Wales details of any other planned acquisition costs that we do not have visibility of.

Senator RICE: But that \$16.8 billion at the moment—does that include any acquisition costs?

Mr Parkinson: As I previously indicated to the committee, I certainly expect that it does include some of those costs. They are fundamental to the project. However, with the table that has been tabled indicating that there are land acquisition costs which may not be included, we would have to take that on notice and come back to you with details of what those might be.

Answer:

Refer to response at 28.

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Question no.: 42

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Northern Roads business case submissions

Proof Hansard Page: 30-31 (17 October 2016)

Senator McCarthy, Malrindirri asked:

Senator McCARTHY: Mr Parkinson, I want to go back to an answer that you gave with respect to the Tanami. I asked how many infrastructure submissions had come IA from the Northern Territory, and you said that, in the past 12 months, this was the only one. Would you be able to provide answers as to how many project submissions have come from the Northern Territory in the past five years?

Mr Parkinson: Yes, we could take that on notice. If I could clarify: the discussion and the answer that I gave was with respect to business cases. We have received some other initiative proposals from the Northern Territory—some of which are published on the Infrastructure Priority List. We do not presently have business cases for those initiative proposals.

...

Senator McCARTHY: When you are taking that question on notice about how many projects in the past five years, could you also take on notice how many submissions to the IA in the past five years were unsuccessful?

Mr Parkinson: In terms of business case submissions?

Senator McCARTHY: Yes.

Mr Parkinson: Certainly.

Answer:

Refer to response at 29.

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Question no.: 43

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex operating costs

Proof Hansard Page: 32 (17 October 2016)

Senator Rice, Janet asked:

Senator RICE: No. This will take one minute, because I am happy for this to be on notice. In terms of the costs that are included in the WestConnex business case, you talked about taking on notice the land acquisition costs. The other costs that I am interested in are the operating expenses, the network extensions and the development costs, which have not been disclosed. What value has been put to those in terms of your assessment of the benefit-cost ratio?

Mr Parkinson: We have already undertaken to take on notice to get the details of those network costs and development costs. With respect to operating costs, some of those are different matters that are confidential to the proponent. We would have to, again, take it on notice and see what we could come back with for you.

Answer:

The November 2015 business case for the WestConnex project includes operating costs. These costs are commercial-in-confidence and have not been published.

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Question no.: 44

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Maldon to Dombarton

Proof Hansard Page: Written (27 October 2016)

Senator Sterle, Glenn asked:

IA at Estimates on October 17 said that the Maldon Dombarton Rail Link is one of the business cases currently being assessed. When approximately did IA ask the NSW Government for the additional information required for the Business Case?

- a) Has there been any follow up from IA to NSW Government regarding the delay in getting this information? When does IA expect to get it?
- b) Has IA asked the NSW Govt for a report on what they spent the \$25 million grant provided to them by the Fed Govt in 2011-12 for engineering works on Maldon Dombarton?
- c) If yes, can you provide the Committee with that information?

Answer:

- a) Infrastructure Australia first asked the NSW Government to provide additional information on the Maldon-Dombarton business case in January 2016. Infrastructure Australia has followed-up with the NSW Government on a number of occasions since then, as part of our regular engagement with the NSW Government.
- b)-c) This is a matter for the Department of Infrastructure and Regional Development.

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Question no.: 45

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Priority for projects

Proof Hansard Page: Written (27 October 2016)

Senator Sterle, Glenn asked:

Does IA accept that in the last twelve months it has released assessments of projects immediately prior to Government funding announcements? Why is that? For example:

- a) Inland Rail – May 2016 - \$594 million funding announcement was made that month
- b) Ipswich Motorway – Rocklea to Darra Stage 1 – \$200 million funding announcement made around the same time
- c) How does IA decide which projects to allocate assessment priority to?
- d) Does IA accept that it is established to work at arm's length of Government and to order its work independent of Federal Government – or is it more complicated than that?
- e) Are there any projects being assessed that are not sponsored by the relevant State Government?
- f) What would happen if a State Opposition sponsored a project?
- g) What happens to IA's processing of assessments when there is a change in State or Territory Government? Does that affect the rate of assessment of projects? If yes, why?

Answer:

- a-b) Infrastructure Australia works with project proponents to finalise project evaluations as quickly as possible. These evaluations are published shortly after consideration by the Infrastructure Australia Board, following fact and sensitivity checking undertaken in cooperation with the proponent. Timing of Government funding announcements is a matter for Government.
- c) Infrastructure Australia commences its evaluation of project proposals (i.e. potential infrastructure solutions for which a full business case has been completed by the proponent) as soon as they are received. The length of the evaluation process varies depending on the complexity of the business case, the number of clarification questions issued to the proponent, and the time taken by the proponent in responding to those questions.
- d) Yes.
- e) Yes.
- f) Infrastructure Australia would welcome initiative submissions (i.e. potential infrastructure solutions for which a business case has not yet been completed) from a state opposition. For project proposals, all proponents need to demonstrate that they have the support of the relevant state government.
- g) Infrastructure Australia does not change its project evaluation process when state or territory governments change. However, changes in state or territory governments can lead to delays in the provision of information necessary to progress project evaluations, and in some cases may lead to projects being withdrawn.

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Question no.: 46

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Tax loss incentive for designated infrastructure projects

Proof Hansard Page: Written (27 October 2016)

Senator Sterle, Glenn asked:

Has Infrastructure Australia had parties expressing interest in accessing the Tax Loss Incentive for Designated Infrastructure Projects in the past two years?

- a) If yes, how many?
- b) Has IA provided formal guidance on steps to take to access the incentive?
- c) If yes, on how many occasions?
- d) Are there any barriers to take-up of the incentive? If yes, what are the barriers?
- e) Are there improvements that could be made to make the incentive more accessible or attractive? If yes, what?
- f) What similar initiative will replace the incentive after June 30, 2017?
- g) Should the incentive remain available after that date?

Answer:

- a) Yes. Formal inquiries from one party, and informal telephone inquiries from several parties.
- b)-c) Yes. Infrastructure Australia has provided formal guidance to one party, on an iterative basis.
- d) The legislation governing the Tax Loss Incentive scheme (the *Income Tax Assessment Act 1997* and the Income Tax Assessment (Infrastructure Project Designation) Rule 2013) sets out various prerequisites for eligibility for the scheme.
- e)-g) These are policy matters which should be referred to the Minister for Revenue and Financial Services.

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Question no.: 47

Program: n/a

Division/Agency: Infrastructure Australia

Topic: Townsville Eastern Access Rail Corridor

Proof Hansard Page: Written (27 October 2016)

Senator Sterle, Glenn asked:

Has IA seen the business case for the Townsville Eastern Rail Corridor project?

- a) What is the scope of the project?
- b) What is the total cost of this project?
- c) What is IA's assessment of this project?
- d) What is the project's BCR?
- e) Has the Government asked IA to progress assessment of this project?

Answer:

Infrastructure Australia has not received a business case for the Townsville Eastern Rail Corridor Project.

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Question no.: 48

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex

Proof Hansard Page: Written (28 October 2016)

Senator Rice, Janet asked:

In its latest evaluation of WestConnex (April 2016), IA identifies that the methodologies the proponent has used for calculating the following have introduced the risk that the "benefits could be overstated":

- the annualisation factor used ... to convert weekday traffic estimates to yearly estimates
- vehicle operating costs
- the high share of travel time benefits accruing to business travel

Could IA provide a revised figure for these benefits, calculated according to Transport for NSW guidelines?

a) Having now established that there is an allowance for Land Acquisitions within the figure of \$16.8B, can IA inform us if this allowance is still expected to be sufficient, and if not, what the impact on the quantum of Capital Expenditure will be?

b) Having now established that "many of the network enhancements [associated with WestConnex] would have occurred irrespective of WestConnex", can IA quantify the cost of those network enhancements that would not have occurred if it were not for WestConnex?

c) In its latest evaluation of WestConnex (April 2016), IA stated that according to the proponent, induced traffic has reduced the benefits by 25%. Which methodology has been used to calculate this figure? What has IA does to satisfy itself that a 25% reduction is a reliable figure?

d) The RTA has said that travel time savings of less than five minutes "are often not realised and can be considered inframarginal". (<http://www.rms.nsw.gov.au/documents/projects/sydney-north/lane-cove-tunnel/m7-motorway-cct-lct-post-implementation-review-report.pdf>) Can IA quantify the percentage of time savings associated with WestConnex that would be considered inframarginal using a cut-off of 5 minutes?

e) Given that Operating Costs were provided in previous reports, why are they now confidential?

Answer:

Infrastructure Australia noted in its project evaluation summary for WestConnex that there are some areas where benefits for the project could be overstated, or understated. Infrastructure Australia has not calculated a revised figure for these benefits. Infrastructure Australia tests each of the parameters underpinning the benefit-cost ratio, but does not formulate an alternative benefit-cost ratio.

- a) The November 2015 WestConnex business case includes property acquisition costs. These costs are commercial-in-confidence and have not been published.
- b) The November 2015 WestConnex business case excludes costs related to network enhancements which would have occurred irrespective of the WestConnex project and which are being delivered separately to WestConnex. The business case includes network enhancements that are part of WestConnex. These are set out in the business case, for example at Table E.2 on page 24.
- c) The proponent's methodology for calculating induced demand is set out in the traffic modelling report available on the proponent's website. Infrastructure Australia reviewed the elasticities used, which are consistent with published guidelines. Infrastructure Australia also noted the results are similar to results for other major road projects which use different approaches.
- d) No. The transport modelling outputs used in the cost benefit analysis are provided at an aggregated level.
- e) This is a matter for the proponent, the New South Wales Government.

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Question no.: 230

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex BCR

Proof Hansard Page: 24-25 (22 November 2016)

Senator Rice, Janet asked:

Senator RICE: My question relates to the cost-benefit analysis of WestConnex. I asked questions of Infrastructure Australia about it at estimates on 17 October. Further to that, the committee received some correspondence from an individual who was also asking about the benefit-cost analysis and the correspondence that he had with Mr Parkinson. I will read what he has said to you: 'At the supplementary estimates hearing, Senator Rice put to Mr Parkinson that the WestConnex benefit-cost analysis of 1.7 was based on costs of \$13.5 billion, and Mr Parkinson replied, "As set out in our project evaluation summary for the WestConnex project, for capital costs we are using the \$16.8 billion figure."' He goes on to say: 'My own calculations match those of Senator Rice. The benefit-cost analysis of 1.7 is broadly consistent with a cost of \$13.5 billion and is inconsistent with a cost of \$16.8 billion.' He says, 'I duly made an inquiry of Mr Parkinson. He was good enough to reply that the \$13.5 billion total cost figure is the present value of total cost at the seven per cent real discount rate. The \$16.8 billion capital cost figure is a nominal outturn figure which is not discounted. In other words, Mr Parkinson has privately acknowledged that, contrary to the answer he gave Senator Rice, the benefit-cost analysis of 1.7 is based upon discounted costs of \$13.5 billion, not upon the undiscounted cost of \$16.8 billion.' I want to clarify then, given what is going on here. He knows it is not a trivial matter and that the difference here is in excess of \$3 billion of public money.

Mr Mrdak: I will take that on notice and get you an answer as quickly as possible. I suspect we will need to clarify. As you are aware, there are essentially two assessments underway. We have the nominal outturn cost, which is the \$16.8 billion, to which the benefit-cost analysis would normally apply, because that is your capital cost.

Senator RICE: Yes. Exactly.

Mr Mrdak: The \$13.5 billion, as I understand it, is effectively the net present value assessment, which is a different assessment to the benefit-cost analysis. Generally, with most business cases, you will end up with a benefit-cost analysis, which is the number that is greater than one. Separately, you will have what we call an NPV analysis, which is essentially the discounted financial transaction cost, which gives you essentially your financing value of the project. I will take on notice the question that has been raised by the correspondent and yourself and will come back to you, if I may, in detail.

Answer:

The WestConnex business case sets out costs in both real present value (discounted) and nominal (undiscounted) terms.

Infrastructure Australia recommends that benefit-cost ratios be calculated using present values of real costs and benefits, discounted at 7%. This is set out in Infrastructure Australia's published Assessment Framework (*Detailed Technical Guidance* pp.37-38).

For the WestConnex project, the present value of total costs at 7% real discount rate is \$13.5 billion. This is the present value of the real capital costs together with the present value of the real operating and maintenance costs (real values discounted at 7%). These costs are used by the proponent to calculate its stated BCR of 1.7 (excluding wider economic benefits).

In a typical project, the estimated total capital cost is initially expressed as an undiscounted nominal value, with inflation included. The capital cost figure of \$16.8 billion is a nominal estimated outturn figure which is not discounted.

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Question no.: 231

Program: n/a

Division/Agency: Infrastructure Australia

Topic: WestConnex BCR

Proof Hansard Page: 25 (22 November 2016)

Senator Rice, Janet asked:

Senator RICE: What you just said and what I was going to ask is: in normal practice, you would use the \$16.8 billion, but it appears that the benefit-cost ratio has used the \$13.5 billion.

Mr Mrdak: That is what I need to establish. Generally, under a business case you will have what we call an NPV, a net present value of a project, which is the discounted cash flow analysis, essentially, and then you have the benefit-cost analysis, which is done on your outturn cost. It might just be a case of having to explain the definitions of the two assessment methodologies that would be utilised. Let me take that on notice and come back to you.

CHAIR: Mr Mrdak, the secretary will make an attempt to produce a redacted copy of the correspondence that we have and then we will give consideration as to whether there are any implications in providing you with that, but you will have the exact figures and terminology used to assist you.

Mr Mrdak: That would be utilised, and we can obviously—

CHAIR: We will try to do that through the break, if we can.

Mr Mrdak: That is fine. I will get an answer and an explanation for Senator Rice as soon as possible.

Senator RICE: This evening?

Mr Mrdak: I do not think I would be able to do it this evening because I need to go back. Given the hour, I just do not think I would be able to get hold of the officers who have the details, including Mr Parkinson. I need to take it on notice, I am sorry.

Answer:

Please refer to 230.