

Chapter 5

Committee view and recommendations

5.1 The Perth Freight Link is the most expensive infrastructure project ever undertaken in Western Australia. It has total funding from the federal and state governments likely to exceed its proposed capital expenditure of \$1.9 billion, which includes \$1.2 billion of Commonwealth funds. This amount of funding is a once-in-a-generation opportunity to invest in the infrastructure needs and long-term economic prosperity of Western Australia.

5.2 However, if the Perth Freight Link proceeds, it will blow this opportunity on a project that will not achieve what it proposes to do, and is not wanted - not only by the communities that it would run through but also by the business and transport sectors it purports to assist.

5.3 The committee believes Western Australia desperately needs investment in transport and freight infrastructure to ensure the prosperity and economic health of the state over the coming decades. This investment could be the key driver of the efficiency and productivity of the state's business, agricultural, industrial and primary resource sectors over the coming decades, as well as having flow-on benefits for the general Australian economy.

5.4 However, it is clear from the evidence that the Perth Freight Link is not the right project for Australian governments to invest in. Accordingly, the committee considers that the Commonwealth should redeploy the funding earmarked for the Freight Link to other, more productive and properly-planned infrastructure funding in Western Australia.

5.5 This would mean that the Commonwealth could work collaboratively with Infrastructure Australia and the government of Western Australia to identify the best possible freight and transport infrastructure for Western Australia and plan its development in a robust, transparent and efficient way.

Commonwealth funding and the Business Case for the Freight Link

5.6 In the 2014-15 Budget, the Commonwealth committed a total \$925 million to the Freight Link, including \$59 million of funding delivered under the 2013-14 Budget for improvements to the Leach Highway/High Street Fremantle. In April 2016 the Commonwealth committed a further \$260.8 million to the project, taking total federal funding for the Freight Link to a massive \$1.2 billion.

Poor design and insufficient consultation with Western Australia and Infrastructure Australia

5.7 The Freight Link proposal was poorly and hurriedly conceived by the Commonwealth before funding was committed. Evidence suggests that the Commonwealth undertook virtually no consultation with the government of Western Australia to develop the Freight Link, which was clearly unaware of the proposal before the 2014-15 Budget announcement.

5.8 Moreover, the committee finds it incredible that the Commonwealth would approve a project that was not mentioned in any Western Australian government statements on future infrastructure priorities for the state, a fact noted by Infrastructure Australia.¹

5.9 It is also apparent that Infrastructure Australia was not aware of the Perth Freight Link proposal until its public announcement by the Commonwealth.² Given Infrastructure Australia's role in ensuring effective infrastructure planning across our nation, the committee considers that a project of this size should have been evaluated by the agency much earlier than May 2015.

5.10 The committee also notes that Infrastructure Australia's assessment of the Freight Link was lukewarm at best, and that it noted several flaws in the Business Case, including that its costs may exceed the estimates provided and that other options were not adequately assessed.

The Business Case for the Freight Link is fundamentally flawed

5.11 Much of the evidence considered by the committee showed that, if implemented, the Freight Link is likely to deliver fewer benefits than the Business Case proposes. Despite its best efforts, the committee was not able to consult the full Business Case, which remains confidential, and so has been forced to rely upon the Executive Summary to the Business Case, publically released in December 2014.

5.12 In considering the Executive Summary, it appears there is a significant risk that the capital costs of the Freight Link would be much more than estimated. Indeed, this has been recently proved by the additional Commonwealth funding of \$260.8 million to tunnel certain parts of the project.

5.13 Most seriously, the project does not incorporate a strategy to improve traffic flows through Fremantle to the port itself. This means the project is likely to cause traffic congestion around the Stirling Bridge. The committee understands that upgrades to bridges into Fremantle alone could add as much as \$500 million to capital costs. It is also concerning that no solution has been proposed as to how the City of Fremantle - which already faces significant traffic flow problems - would handle increased volumes of freight transport through its urban and residential streets.

5.14 Moreover, there are substantial parts of the Freight Link proposal that are still to be confirmed more than two years after its announcement. For example, the state government has indicated it is considering tunnelling or trenching parts of the route, which would also add substantially to capital costs and additionally to ongoing operational expenditure. Additionally, there is still great uncertainty about the introduction of the toll system that is part of the Freight Link's design, particularly how much revenue it would accrue, and how much the necessary supporting infrastructure would cost to build.

1 Infrastructure Australia, *2014-2015 Assessment Brief: Perth Freight Link*, p. 2.

2 Professor Peter Newman, *Submission 5*, p. 1.

5.15 Any increase in capital costs, or lower-than-forecast revenue, would make the economic benefits of the Freight Link far smaller than the Business Case estimates.

5.16 This shortfall in benefit would be compounded further by the likelihood that the economic benefits outlined in the Business Case Executive Summary have been overstated. For example, it is forecast in this Executive Summary that more than \$3.92 billion of benefits would be created by the Freight Link, but it is unclear how these benefits are calculated. Without accessing the modelling contained in the full Business Case, the committee is not clear how the proposed reduction of travel time by nine-and-a-half minutes for vehicles using the Freight Link translates to a total of \$2.469 billion in benefits for the Western Australian economy.

5.17 It seems to the committee that this is but one example of the incredibly generous and unrealistic estimation of the project's Business Cost Ratio [BCR] contained in the Business Case.

5.18 These significant uncertainties in the design, capital costs and economic modelling underpinning the Freight Link project make it impossible to have any confidence in the accuracy of the cost and benefit estimates contained in the Business Case Executive Summary.

The project was developed with insufficient consultation and transparency

5.19 The committee also had concerns about evidence suggesting that such a large and expensive policy proposal should have been undertaken with much more comprehensive consultation with local governments, industry stakeholders, and groups and individuals from the communities who will be most affected.

5.20 Local governments overwhelmingly told the committee that they were not convinced the project was necessary or viable. The committee understands that local governments were not consulted about the plan's development and, moreover, that they were not given opportunities to shape its implementation in any meaningful way.

5.21 The committee also took evidence showing business and agricultural sectors are uneasy about the Freight Link, and of a widespread perception that the project does not give any certainty for the future capacity of Western Australia to meet its freight task.

5.22 The large number of submissions from community groups and individuals who would be affected by the Freight Link also demonstrated how poorly the project has been received. Some of this evidence showed that it would cause damage to the environment, destroy Indigenous and other heritage areas, and have profoundly negative social and health outcomes for communities that live along the route.

5.23 Moreover, the committee was moved by the personal testimonies of people whose houses stand to be seized by the Western Australian government, trauma that is magnified by lack of certainty about the Freight Link's implementation.

Delays and uncertainty to the project's implementation

5.24 Since its announcement, the Freight Link has been beset by difficulties in its implementation.

5.25 Currently there are cases before the Supreme Court of Western Australia considering the environmental and Indigenous heritage aspects of the first stage of the Freight Link, Roe 8. Consequently, it is unlikely Roe 8 will commence construction anytime soon, even though tenders were awarded and work was scheduled to commence in late 2015. The committee heard that the delay to Roe 8 may mean that the tendering process will have to be undertaken again, depending on the outcome and length of these cases, which will complicate matters still further.³

5.26 Regarding the second stage of construction, the Western Australian Premier, the Hon Colin Barnett, stated in November 2015 that work developing and implementing stage 2 of the Freight Link would be delayed for at least until late-2016.⁴

5.27 These uncertainties mean that the Freight Link's route, its cost, and its full effects could remain unresolved for quite some time. Given this, the committee considers it is appropriate for the Commonwealth to reconsider its commitment to the project, and what infrastructure Western Australia needs to boost productivity and economic growth well into the future.

Recommendation 1

5.28 The committee recommends that the Commonwealth withdraw its support for the Freight Link project, and re-commit the project's total federal funding of \$1.2 billion to the development and implementation of future Western Australian freight infrastructure projects.

Recommendation 2

5.29 The committee recommends that the Commonwealth work collaboratively with the state government to identify and develop future projects that will best meet the long-term infrastructure needs of Western Australia, and that these projects are supported by fully developed Business Cases that are submitted to Infrastructure Australia for assessment and published publically.

Recommendation 3

5.30 The committee recommends that the Commonwealth release the full Business Case for the Freight Link, as assessed by Infrastructure Australia, to provide transparency on the project's proposed economic and social benefits.

The need for a full analysis of all policy options

5.31 It is clear from the Business Case Executive Summary that viable alternatives to the Freight Link were not considered. In this, the committee reached the same conclusion as Infrastructure Australia, who stated in its assessment of the project that:

3 Rural And Regional Affairs And Transport Legislation Committee, *Estimates Proof Committee Hansard*, 8 February 2016, p. 37.

4 Colin Barnett, Premier of Western Australia quoted in Rebecca Carmody, 'Perth Freight Link: Colin Barnett shelves 'incredibly expensive' second section', ABC Online, 1 November 2015 at <http://mobile.abc.net.au/news/2015-11-01/colin-barnett-parks-stage-two-of-perth-freight-link/6903282> (accessed 2 November 2015).

A rapid BCR was completed for the preferred option only, assessed against the Base Case. A rapid BCR was not completed for additional options to determine if the preferred option provided the greatest net benefits... The options did not include consideration of the Outer Harbour at Cockburn Sound South [sic] of Perth.⁵

5.32 The committee sees this omission as further proof that the Freight Link proposal was poorly conceived, badly designed and irresponsibly committed to by the Commonwealth government.

Fremantle port close to capacity

5.33 The committee received almost unanimous evidence that the existing port at Fremantle will reach its optimum capacity over the next decade, and that it cannot handle the new generation of cargo ships and cranes needed for a fully modern freight task. It is clear to the committee that the Freight Link, should it go ahead, would service a port that is close to reaching capacity. The committee considers that it would be far more judicious to consider improvements to rail and traffic management strategies to improve the port's operation, rather than investing in an expensive, unpopular and badly designed Freight Link.

A second port at Kwinana is necessary and inevitable

5.34 The committee also heard repeatedly that the proposal for a second harbour not only has a long history of bipartisan political support, but also has strong backing from industry and the community. Given this, the committee sees that the construction of a second port is not only necessary for the economic future of Western Australia, it is also inevitable.

5.35 This was most clearly expressed during the committee's second hearing, which focussed on the City of Kwinana's Indian Ocean Gateway proposal. This proposal showed a second port at Kwinana could be made operational within a decade, around the time Fremantle reaches capacity, for around the same amount of investment currently committed to the Freight Link by the Commonwealth government.

5.36 The committee commends the City of Kwinana for its development of the Indian Ocean Gateway proposal, which included wide consultation, thorough planning, and sound economic modelling. While the committee understands that there are some significant implementation issues to be worked through in the proposal, particularly around transport between ports, it considers that the proposal for a second port at Kwinana is fundamentally sound, and that the Indian Ocean Gateway plan demonstrates a willingness by Kwinana to take a leadership and advocacy role, not only for the city itself, but also for surrounding areas and Western Australia more generally.

Recommendation 4

5.37 The committee recommends that the Commonwealth work with Infrastructure Australia and the Western Australian government to identify rail and traffic management strategies to expedite freight movement around the current Fremantle Port facilities.

Recommendation 5

5.38 The committee recommends that the Commonwealth Department of Infrastructure and Transport consider undertaking a full analysis of the costs and benefits of investing in a second port at Kwinana, as outlined by the City of Kwinana's Indian Ocean Gateway proposal.

Recommendation 6

5.39 The committee recommends that Infrastructure Australia assess the City of Kwinana's Indian Ocean Gateway proposal for inclusion on its Infrastructure Priority List.

The need for more effective Commonwealth infrastructure planning

5.40 The committee has concerns that the Perth Freight Link is indicative of a more widespread systemic problem in the Commonwealth's development and planning of Australia's infrastructure.

5.41 At the last election, the Coalition committed to work with the states and territories to develop infrastructure that best suits their need to boost productivity and assure the best economic returns from Commonwealth investment. This was made clear in the 2013 election campaign, in which the Hon Tony Abbott, then leader of the opposition, made the following commitment:

...we will do much more than just deliver infrastructure. We will ensure better infrastructure planning, more rigorous and transparent assessments of taxpayer-funded projects, and develop a much firmer and clearer infrastructure plan for Australia's future.

The Coalition will strengthen the role of Infrastructure Australia, to create a more transparent, accountable and effective adviser on infrastructure projects and policies.⁶

5.42 To do this, the Coalition committed to:

...require all Commonwealth infrastructure expenditure exceeding \$100 million to be subject to analysis by Infrastructure Australia to test cost-effectiveness and financial viability.⁷

6 *The Coalition's policy to deliver the infrastructure for the 21st century*, Coalition policy document, Election 2013, p. 2.

7 *The Coalition's policy to deliver the infrastructure for the 21st century*, Coalition policy document, Election 2013, p. 2 (accessed 5 April 2016).

5.43 Quite clearly, this has not been done in the case of the decision to fund the Perth Freight Link. The Coalition government, first under Mr Abbott, and now under Mr Turnbull, have failed to match their actions with their rhetoric.

5.44 The Freight Link debacle is another example of poor judgement in infrastructure planning and implementation that has beset the Abbott-Turnbull administration, alongside the East-West Link in Victoria and the WestConnex motorway in Sydney.

5.45 The Auditor-General has already undertaken and published a highly critical review of the Abbott Government's reckless decision to commit \$3 billion of public funding to Melbourne's disastrous East-West Link.⁸ The committee considers it timely that the Auditor-General consider a further formal investigation of the systemic failure of the Commonwealth's planning and assessment of transport infrastructure, including the decision to fund the Perth Freight Link Project.

Recommendation 7

5.46 The committee recommends that the Auditor-General undertake a formal investigation into the systemic failure of the Commonwealth's planning and assessment of road and freight transport infrastructure, including the decision to fund the Perth Freight Link project.

**Senator Glenn Sterle
Chair**

8 Auditor-General, *Approval and Administration of Commonwealth Funding for the East West Link Project* (December 2015).

