



## **2013 STATE ELECTION POLICY COSTING – IMPACT OF LIBERAL PARTY COMMITMENTS ON STATE FINANCES**

The Caretaker Conventions applying to the 2013 State Election allow for the major parties to request costing advice for their party's election commitments by the Under Treasurer.

On 1 and 4 March 2013, the Department of Treasury (Treasury) received your request to verify costings for election commitments announced by the Liberal Party (listed at Attachment A) and requested advice on the impact of those commitments relative to the *Pre-election Financial Projections Statement* (PFPS).

This advice does not include the election commitment announced on Tuesday, 5 March 2013, 'Liberals reform builds future workforce' as the cut-off for submitting requests for costing to Treasury was Monday, 4 March 2013.

Also, it is noted that, during the Leaders debate on 19 February 2013, the Premier in response to a question from a journalist, stated that increases in electricity prices will be kept 'at or around the rate of inflation'.

If increases in electricity prices were to be held at levels consistent with the Perth CPI forecasts published in the PFPS (2.75% per annum from 2013-14 to 2015-16) – rather than the 5% in 2013-14 and 10% in each of 2014-15 and 2015-16 currently assumed in the budget aggregates – net debt would increase by \$539 million over the forward estimates period. Also, the net operating balance would deteriorate by \$36.1 million in 2013-14, \$168.0 million in 2014-15 and \$334.5 million in 2015-16.

The impact on the State's finances of the election commitments costed by Treasury is outlined at Attachment B and totals \$1.2 billion in net debt terms to 30 June 2016. In addition to the direct costs of election commitments, this costing advice includes the indirect cost of interest on higher debt due to proposed new spending (also available in Attachment B). Across the forward estimates period to 2015-16, Treasury estimates that these interest costs will total \$34 million.

Where a Liberal Party commitment was proposed to have no cost, it has been assumed that any cost that may arise in future years will be met from existing agency budgets and/or be the subject of normal budgetary deliberations.

Overall, the Liberal Party's cost estimates for its election commitments are considered reasonable. They have been based on a sound information set and methodologies. Assessment of these commitments is general in nature and individual costings may be sensitive to change.

However, there are a range of potential variances (see Attachment C), some of which would be subject to the normal analytical and deliberative processes of Government during the formulation of future budgets.

The Liberal Party's election commitments substantially reduce general government sector operating balance projections over the period to 2015-16. Although operating surplus outcomes are still in prospect on the basis of the aggregate costs indicated by the Liberal Party, the PFPS highlighted the risk of recent royalty revenue volatility that could eliminate very small surplus projections.

It is also noted that:

- the costing assumptions provided by the Liberal Party include Commonwealth funding of \$311 million for transport projects over 2014-15 and 2015-16, which is yet to be negotiated with, and approved by, the Federal Government. This represents a substantial risk to the forecasts. See Attachments D and E for Treasury's costing advice on MAX Light Rail and Airport Rail;
- a total of \$3.0 billion in Commonwealth contribution is assumed as a funding source over the life of major infrastructure projects such as MAX Light Rail, Airport Rail, and the Perth to Darwin Highway. These projects have a total estimated cost of \$4.8 billion. Should all or part the assumed contribution from the Commonwealth Government not be forthcoming, there would be a corresponding impact upon the State's net debt (assuming these projects proceed with the announced scope and timing). Most of this impact would be beyond 2015-16;
- a commitment to restrict increases in electricity prices to the rate of inflation would increase net debt by \$539 million to 2015-16;
- The Liberal Party has made provision within its commitments to progress the Bunbury to Albany Gas Pipeline project. However, the following risks apply in relation to this project:

- the capital cost, which cannot be estimated with any certainty at this stage of planning, has the potential to be higher than currently expected; and
- revenues from the project may be insufficient for a private investor to recover its investment, resulting in the need for an ongoing subsidy payment from the government to make it viable. The net present cost of any ongoing subsidy may be accounted for as a liability on the State's balance sheet and impact upon net debt in a similar fashion to a case where the State directly finances the project; and
- the election commitment to recruit an additional 550 police officers over the period 2012-13 to 2016-17 has significant flow-on costs and risks that were not identified in the policy, estimated to be \$60 million to 2015-16. These include the recruitment and accommodation of 187 new public servants to support the additional officers and increased demand pressures on the Magistrate's Court and the State's prison system.

The attached financial aggregates are based upon the PFPS forward estimates as the starting point. As such, the underlying assumptions and associated risks to the forward estimates outlined in the PFPS are also applicable to the attached forward projections of the financial aggregates (except where a policy commitment explicitly varies the underlying assumptions).

As outlined in the PFPS, the forward estimates are highly sensitive to volatile commodity prices (particularly for iron ore). The PFPS was released against a back drop of both Standard & Poor's and Moody's placing Western Australia's triple-A credit rating on a negative outlook – i.e. at risk of being downgraded in the next two years. As also stated in the PFPS, this highlights the need to constrain expenditure growth in line with revenue growth, with an appropriate and significant surplus as a buffer against increased volatility, and to minimise growth in net debt.

Consistent with the Caretaker Conventions, this advice has been published on the Treasury website.

Yours sincerely



Timothy Marney  
UNDER TREASURER

7 March 2013

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## ELECTION COMMITMENTS SUBMITTED FOR COSTING

The following lists the election commitments submitted by the Liberal Party for costing by the Under Treasurer under the Caretaker Conventions.

Table 1

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**LIBERAL PARTY ELECTION COMMITMENTS SUBMITTED FOR COSTING**

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Name of Commitment	Total Cost Announced \$m	Impact on net debt <sup>(a)</sup> \$m
1 Free Carer's Transport	1.2	0.9
2 Rock Fishing Safety Initiatives	0.3	0.3
3 LED School Lights	36.0	24.0
4 Grant - Exmouth Sea Rescue Shed	0.7	0.7
5 Broome Chinatown Shadecloth	0.2	0.2
6 CARE Schools	4.0	3.0
7 CCTV Funding	13.5	11.9
8 Palliative Care	20.0	14.8
9 Multi-storey Carpark for Edgewater	47.0	47.0
10 Increased Tourism Funding	24.0	18.0
11 Chinatown Improvement	2.0	2.0
12 Airport Rail <sup>(b)</sup>	1,895.0	0.0
13 Police Station in Ballajura <sup>(c)</sup>	12.5	0.0
14 Swan River	16.3	12.7
15 Hartfield Park	6.0	6.0
16 Mundaring - Basketball Courts	3.0	3.0
17 MAX Light Rail <sup>(b)</sup>	1,800.0	0.0
18 Mirrabooka Soccer	0.5	0.5
19 Curtin University Midland Campus	22.0	22.0
20 Lightning Park	0.4	0.4
21 Morley Noranda Bowls	0.8	0.8
22 Coalfields Highway <sup>(d)</sup>	28.0	0.0
23 Parks for People	20.0	16.9
24 DEC Building in Bunbury	15.0	8.0
25 Leschenault Inlet Scientific and Conservatory Efforts	3.0	3.0
26 Regional Police Incentives	10.5	7.9
27 Osborne Park Hospital Parking <sup>(e)</sup>	5.5	0.0
28 Treendale Bridge	18.0	1.0
29 Willetton Sports Club	1.0	1.0
30 Boost Police	282.0	165.2
31 Buy West, Eat Best	0.8	0.8
32 Fire Crew Protection <sup>(e)</sup>	12.3	2.6
33 School Health Nurses	57.2	31.3
34 Hoon Zones	1.6	1.4
35 Scitech	15.0	7.9
36 East Dalyellup Recreation Facilities	0.3	0.3
37 Eaton Oval New Pavilion	3.0	3.0
38 Rapid Justice Initiative	3.6	2.9
39 Cutting Red Tape - Rapid Justice (Red Tape Review)	0.8	0.8
40 Mount Hawthorn Primary School Upgrade	1.3	1.3
41 Nyoongar patrols for Midland CBD	0.9	0.7
42 Future Health	30.0	22.5
43 Bus Shelter Balcatta <sup>(f)</sup>	0.0	0.0
44 South Guildford Bike Path	1.1	1.1
45 Lake Joondalup Bike Path	0.5	0.5

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Table 1 continued

**ELECTION COMMITMENTS SUBMITTED FOR COSTING**

	Name of Commitment	Total Cost Announced \$m	Impact on net debt <sup>(a)</sup> \$m
46	Kalgoorlie-Boulder Community High School <sup>(g)</sup>	45.0	20.1
47	Collie Senior High School	7.5	7.5
48	Fisheries - Restocking	2.4	1.8
49	Crime Hotspots - Mobile Police Facilities	3.7	2.7
50	Crime Hotspots Police Overtime	4.0	3.0
51	Yellagona Regional Park	0.2	0.2
52	Oxford Street LED Signs – Lights <sup>(f)</sup>	0.0	0.0
53	Kostera Oval Kalamunda (Stage 1)	1.0	1.0
54	Heritage Revolving Fund	8.0	6.0
55	Great Eastern Highway Passing Lanes (Southern Cross) <sup>(d)</sup>	48.0	0.0
56	ScreenWest Production Attraction Program	2.0	1.5
57	Mining Approvals Reform	10.0	8.0
58	Promotion of Mining Services Sector	2.0	1.5
59	Online Biodiversity Library	8.0	6.0
60	Ellenbrook Sport	7.0	7.0
61	Nurses Enterprise Bargaining Arrangement <sup>(h)</sup>	0.0	158.8
62	Agricultural Research and Development Fund	20.0	15.0
63	Biosecurity Fund	20.0	15.0
64	Food Centres	1.5	1.5
65	Payroll Tax Threshold	121.0	57.3
66	Grand Carers Support Scheme	5.3	4.0
67	Grand Carers Support Scheme - Wanslea	0.6	0.5
68	Perth-Darwin Highway <sup>(b)</sup>	196.0	0.0
69	Kununurra Patrols	1.0	1.0
70	Domestic Violence Accommodation	10.0	8.0
71	Peel Harvey Estuary	0.4	0.4
72	Pastoral Care Chaplains	2.4	1.8
73	Pastoral Care Counselling Rooms	4.0	3.0
74	Police Citizens Youth Club (PCYC)	10.3	10.3
75	Step up/Step down Facility	11.8	9.0
76	Wheatbelt Renal Dialysis	4.0	3.7
77	Regional Palliative Care <sup>(i)</sup>	3.8	0.0
78	Regional Telehealth	7.2	5.4
79	Great Eastern Highway (Bilgoman Road to Mundaring) <sup>(b)</sup>	24.0	0.0
80	Goldfields Arts Centre	6.2	5.9
81	Indexation of Country Aged Pensioners Fuel Card	6.6	3.9
82	Joondalup Arena <sup>(j)</sup>	20.0	10.0
83	Albany Highway Passing Lanes <sup>(d)</sup>	22.6	0.0
84	GPS Tracker	8.0	6.0
85	Family Violence Legal Service	2.4	1.8
86	Kalgoorlie Speedway	2.0	2.0
87	Review of Road Safety Framework	0.2	0.2
88	DFES Helicopter	19.2	12.5
89	Conservation and Biodiversity Policy (North Kimberley Marine Park)	19.5	14.8
90	Seniors Security Rebate	15.0	11.3
91	Seniors Recreation	0.3	0.2
92	Public Housing Stock <sup>(k)</sup>	0.0	0.0
93	Small Business Centre Program	1.2	0.8
94	Mosquito Reduction	4.0	3.0
95	Underground Power	30.0	20.0

Table 1 continued

**ELECTION COMMITMENTS SUBMITTED FOR COSTING**

Name of Commitment		Total Cost Announced \$m	Impact on net debt <sup>(a)</sup> \$m
96	Community Gardens	0.4	0.3
97	Bike Paths - Aust Bicycle Network Plan	30.0	20.0
98	Bunbury to Albany Gas Pipeline <sup>(l)</sup>	-	-
99	Purchase of Albany Hotel <sup>(l)</sup>	-	-
100	KidsCulture Program	3.4	1.5
101	Executive Officer appointed to assist Australian Disability Enterprises	0.4	0.3
102	Disability Procurement Position in Department of Finance <sup>(e)</sup>	0.0	0.0
103	Free ACROD	3.4	2.5
104	Young People in Aged Care	9.0	6.0
105	Graffiti Bill	5.4	4.1
106	Ear Health	8.0	6.0
107	Fitzroy Kids Health	0.5	0.5
108	Wanjina National Park	3.0	3.0
<b>TOTAL</b>		<b>5,213.1</b>	<b>945.3</b>

(a) As at 30 June 2016.

(b) Proposed Commonwealth Funding (NB2).

(c) Commitment funding included in 'Boost Police' initiative (LIB30).

(d) Funded from the 'Safer Roads and Bridges Program'.

(e) Funded from existing agency resources.

(f) Amount less than \$50,000.

(g) Funded from Royalties for Regions.

(h) Announcement – Increase of 14% over 3 years.

(i) Commitment funding included in 'Palliative Care' initiative (LIB08).

(j) Remaining funding sourced from land sales and Local Government commitment.

(k) Funded from Housing Authority Borrowings.

(l) The Liberal Party requested that the figures not be shown due to the commercial sensitivity of these issues which will be subject to negotiation.

Table 1

**COSTING OF ELECTION COMMITMENTS - IMPACT ON STATE FINANCES<sup>(a)</sup>**  
**LIBERAL PARTY COMMITMENTS TO 4 MARCH 2013**

	2012-13	2013-14	2014-15	2015-16
<b>2012-13 Pre-election Financial Projections Statement</b>				
<b>GENERAL GOVERNMENT SECTOR</b>				
<b>Net Operating Balance (\$m)</b>	<b>241</b>	<b>390</b>	<b>782</b>	<b>1,785</b>
Revenue (\$m)	25,477	27,041	28,400	30,412
Revenue Growth (%)	1.0	6.1	5.0	7.1
Expenses (\$m)	25,236	26,651	27,618	28,627
Expense Growth (%)	2.7	5.6	3.6	3.7
Cash Position (\$m)	-1,888	-1,613	-693	72
<b>TOTAL PUBLIC SECTOR</b>				
<b>Net Debt at 30 June (\$m)</b>	<b>18,263</b>	<b>21,484</b>	<b>22,989</b>	<b>23,662</b>
Asset Investment Program (\$m)	7,324	7,054	6,630	6,450
Cash Position (\$m)	-3,525	-2,683	-1,427	-463
<b>KEY FINANCIAL RATIOS<sup>(b)</sup></b>				
Net Interest Cost to Revenue (%)	2.1	2.5	2.6	2.7
Net Financial Liabilities <sup>(c)</sup> to Revenue (%)	71.9	75.1	74.5	70.9
<b>Indicative Impact of Commitments<sup>(d)</sup></b>				
<b>GENERAL GOVERNMENT SECTOR</b>				
<b>Net operating balance (\$m)</b>	<b>-3</b>	<b>-153</b>	<b>-253</b>	<b>-346</b>
Revenue (\$m)	-	-	-27	-30
Expenses (\$m)	3	153	226	316
Cash Position (\$m)	-8	-198	-381	-445
<b>TOTAL PUBLIC SECTOR</b>				
<b>Net debt at 30 June (\$m)</b>	<b>8</b>	<b>289</b>	<b>760</b>	<b>1,223</b>
Asset Investment Program (\$m)	5	128	217	118
Cash Position (\$m)	-8	-281	-470	-464
<b>KEY FINANCIAL RATIOS<sup>(b)</sup></b>				
Net Interest Cost to Revenue (%)	-	0.0	0.0	0.1
Net Financial Liabilities <sup>(c)</sup> to Revenue (%)	0.0	0.7	1.7	2.6
<b>Indicative Revised Projections</b>				
<b>GENERAL GOVERNMENT SECTOR</b>				
<b>Net operating balance (\$m)</b>	<b>238</b>	<b>237</b>	<b>529</b>	<b>1,439</b>
Revenue (\$m)	25,477	27,041	28,373	30,382
Revenue Growth (%)	1.0	6.1	4.9	7.1
Expenses (\$m)	25,240	26,804	27,844	28,943
Expense Growth (%)	2.7	6.2	3.9	3.9
Cash Position (\$m)	-1,897	-1,811	-1,074	-373
<b>TOTAL PUBLIC SECTOR</b>				
<b>Net debt at 30 June (\$m)</b>	<b>18,271</b>	<b>21,773</b>	<b>23,749</b>	<b>24,885</b>
Asset Investment Program (\$m)	7,329	7,182	6,847	6,568
Cash Position (\$m)	-3,533	-2,964	-1,898	-927
<b>KEY FINANCIAL RATIOS<sup>(b)</sup></b>				
Net Interest Cost to Revenue (%)	2.1	2.5	2.6	2.7
Net Financial Liabilities <sup>(c)</sup> to Revenue (%)	71.9	75.8	76.2	73.5

(a) Based on information made available by the Liberal Party and analysis by Treasury with input from State government agencies. These costings are indicative only and apply to the periods shown in this table.

(b) These ratios relate to the total non-financial public sector.

(c) As defined by Standard & Poor's for the purposes of credit ratings assessments.

(d) Includes the impact of indirect costs such as changes to interest and depreciation. See details in Table 2.

The following table separates the direct costs of commitments from indirect costs for interest on new borrowings.

Table 2  
(a)

**COSTING OF ELECTION COMMITMENTS - IMPACT ON STATE FINANCES**  
**LIBERAL PARTY COMMITMENTS TO 4 MARCH 2013**

	2012-13 \$m	2013-14 \$m	2014-15 \$m	2015-16 \$m	Total \$m
<b>General Government</b>					
<i>Revenue, of which:</i>					
Impact of Commitments	-	-	-27	-30	-57
Interest revenue	-	-	-	-	-
<i>Expense, of which:</i>					
Cost of Commitments	3	153	218	291	664
Interest costs	-	0	8	25	34
Total Public Sector infrastructure commitments	5	128	217	118	468

(a) Based on information made available by the Liberal Party and analysis by Treasury with input from State government agencies. These costings are indicative only and apply to the periods shown in this table.



## VARIANCE BETWEEN LIBERAL PARTY AND TREASURY COSTINGS

The following table highlights material differences between the costings and assumptions submitted by the Liberal Party and those used by Treasury for this costing advice.

Table 1

**MAJOR VARIANCES ACROSS THE FORWARD ESTIMATES BETWEEN  
LIBERAL PARTY AND TREASURY COSTINGS**

	Name of Commitment	Liberal Party Costing \$m	Treasury Costing \$m	Variance \$m
03	LED School Lights	24.0	27.5	3.5
07	CCTV Funding	11.9	15.9	4.0
24	DEC Building in Bunbury	8.0	12.7	4.7
38	Rapid Justice Initiative	2.9	6.6	3.7

## COSTING ADVICE - AIRPORT RAIL LINE

The Caretaker Conventions applying to the 2013 State Election allow for the major parties to request costing advice from the Under Treasurer for their party's election commitments. On 1 March 2013, the Department of Treasury (Treasury) received a request from the Liberal Party of Australia – Western Australian Division (Liberal Party) to verify the costing of its Airport Rail line commitment.

The Airport Rail line comprises the construction of a spur from the Midland line east of Bayswater Station to the future consolidated Perth Airport terminal and continuing to Forrestfield. The Airport Rail commitment also includes the construction of three new stations on the Airport Line (at Airport West (the proposed business/industrial park), Airport Terminal and Forrestfield) with 3,000 parking bays, as well as the purchase of 18<sup>1</sup> new railcars. The Liberal Party has estimated the total capital cost of the Airport Rail line at \$1.895 billion over five years (escalated for increases in construction costs over that period).

In undertaking this exercise, Treasury has not examined demand projections, transport planning objectives, or other factors (such as cost/benefit analysis). Therefore, no comment is made, or should be interpreted, as to the validity of the investment proposed.

### COSTING

Treasury has costed the Airport Rail line based on the best information available. However, as the Airport Rail line is at a preliminary concept design stage, various assumptions have had to be made in deriving the costing advice (and are highlighted below).

Noting that the costing advice is indicative and based on preliminary concepts only, Treasury estimates the total capital cost of the Airport Rail line at \$2.015 billion over five years. The table below outlines the estimated total cost.

Item	Estimated Total Cost	
	Unescalated (2012 dollars) \$m	Escalated \$m
1. Airport Line .....	1,586	1,929
2. Railcars .....	72	86
<b>Total .....</b>	<b>1,658</b>	<b>2,015</b>

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<sup>1</sup> Number of railcars (6 three-car sets) advised by the Public Transport Authority.

## METHODOLOGY

The methodology that Treasury has used to cost the Airport Rail line is as follows:

- the scope of the costing advice reflects information provided by the Liberal Party, as well as publicly released Airport Rail line policy statements.
- detailed scope elements (for example: length of at-grade track, tunnelling, rail bridges, road interchanges and stations etc), where not explicitly specified in the Liberal Party scope advice, have been derived from information provided by the Liberal Party, Public Transport Authority (PTA) and Main Roads Western Australia.
- the costing of the Airport Rail line is formulated on a unit rate and unit cost based estimating methodology.
- the applied unit rates are inclusive of contingency, and have been benchmarked against recent public infrastructure projects and verified by an independent quantity surveyor engaged by Treasury.
- in recognition of the complexity and constraints associated with the route, including construction of bored tunnels under the Airport runways and Forrestfield rail marshalling yard, a specific contingency has been included in the costings for the Airport Line (over and above the standard unit rates), comprising 28% of the estimated rail infrastructure costs. This reflects the contingency rates for constructability, risk and project scope detailed in the Commonwealth Department of Infrastructure and Transport's *Best Practice Cost Estimation Standard for Publicly Funded Road and Rail Construction*.
- the applied escalation rates reflect the rates adopted in the new Perth Stadium and new Perth Stadium Transport Project Definition Plans. The escalation in these plans was based on the Australian Institute of Quantity Surveyors (WA) Construction Cost Index Forecast up to 2016-17. Escalation in 2017-18 was estimated by the cost planner for the new Perth Stadium Project Definition Plan at 5.3%, and it is assumed that this rate will remain constant in 2018-19.

In formulating the costing advice, Treasury consulted with representatives from the Department of Transport (DOT) and PTA.

## **COSTING OF ELECTION COMMITMENT - IMPACT ON STATE FINANCES**

The 2012-13 *Pre-election Financial Projections Statement* (PFPS) released on 7 February 2013 included a provision for estimated Nation Building Program 2 (NBP2) funding and expenditure over the forward estimates period. The Liberal Party has indicated it would fund the Airport Rail line over the forward estimates period from this provision. On this basis, the Airport Rail project has no impact on the forward estimates as published in the PFPS.

## **FUNDING ASSUMPTIONS**

Based on previous advice, it is understood that the DOT anticipates that 80% of the Airport Rail project would be funded by the Commonwealth through NBP2. Therefore, of the total capital cost of \$2,015 million over five years, it is assumed that \$1,612 million would be funded by the Commonwealth and the remaining \$403 million would be funded by the State.

The provision of Commonwealth funding as anticipated by the DOT is contingent upon successful application under NBP2. Whilst the application and assessment process has commenced, the Commonwealth has not yet committed to funding the delivery phase of the project.

## **COSTING RISKS**

- The availability of the assumed Commonwealth funding for this project is a risk. By way of illustration, if no Commonwealth funding is forthcoming, the debt impact of this project would increase by \$1.6 billion.
- This costing is only based on the capital cost of the project and does not include the additional operating costs (and operating subsidy) associated with the proposed network – as these operating costs would not commence until after the current forward estimates period.

## **OTHER ISSUES**

- Capacity of the network<sup>2</sup>:
  - Assuming the Airport Rail line carries 6 trains per hour (TPH) at peak times in accordance with the Liberal Party commitment, and peak services on the Midland line are maintained at the current 6 TPH, a total of 12 TPH will operate on the line between Bayswater and Perth.

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<sup>2</sup> The future capacity estimates for the Midland lines has been provided to the PTA by GHD consultancy.

- The PTA advises that running 12 TPH on the Midland line would operate reliably and effectively. However, as demand on the two services grows, additional TPH will be required. The PTA has advised that increased frequency of services beyond 12 TPH will have a reliability impact (i.e. on time running of trains<sup>3</sup>), which will increase in regularity and severity as frequency increases. This carries an associated safety risk. The PTA considers a service of 16 TPH will be achievable, recognising the potential for lower order changes (such as minor infrastructure improvements) that could be required to assure an acceptable level of reliability. Based on PTA advice, a service of 16 TPH is expected to be capable of meeting demand to around 2028.
- The PTA will need to undertake further work to determine whether (and if so, when) there will be impacts on the Midland line infrastructure due to increased services required to meet future demand. If the frequency of rail services required exceeds 12 TPH, the PTA would need to investigate options including improved signalling, duplication of the track, or the purchase of additional rolling stock (to increase the number of railcars per train). All of these options would have a significant financial impact which is not included in the costing.
- The increase in the number of train services as a result of the proposed Airport Rail line may also impact the capacity of the Perth Station. The Perth Station may need to be upgraded to cater for these additional services, and the cost of this has not been assessed. Further investigation would be required to determine the extent of these upgrades.

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<sup>3</sup> A train is deemed to be 'on time' if it arrives within four minutes of the scheduled time.

## COSTING ADVICE - METRO AREA EXPRESS (MAX) LIGHT RAIL

The Caretaker Conventions applying to the 2013 State Election allow for the major parties to request costing advice from the Under Treasurer for their party's election commitments. On 1 March 2013, the Department of Treasury (Treasury) received a request from the Liberal Party of Australia – Western Australian Division (Liberal Party) to verify the costings of its MAX Light Rail commitment.

The MAX Light Rail commitment comprises the construction of a light rail service connecting Mirrabooka to the Perth Central Business District (CBD), and Victoria Park to the Queen Elizabeth II Medical Centre in Nedlands (via the CBD). The commitment also includes the purchase of 25<sup>4</sup> light rail vehicles. The Liberal Party has estimated the total capital cost of the MAX Light Rail commitment at \$1.8 billion over five years (escalated for increases in construction costs over that period).

In undertaking this exercise, Treasury has not examined demand projections, transport planning objectives, or other factors (such as cost/benefit analysis). Therefore, no comment is made, or should be interpreted, as to the validity of the investment proposed.

### COSTING

Treasury has costed the MAX Light Rail project based on the best information available. However, as the MAX Light Rail project is at a preliminary concept design stage, various assumptions have had to be made in deriving the costing advice (and are highlighted below).

Noting that the costing advice is indicative and based on preliminary concepts only, Treasury estimates the total capital cost of the MAX Light Rail project at \$1.88 billion over five years. The table below outlines the estimated total cost.

Item	Estimated Total Cost	
	Unescalated (2012 dollars) \$m	Escalated \$m
1. MAX Light Rail Network (including Depot) .....	1,411	1,711
2. Light Rail Vehicles .....	150	171
<b>Total</b> .....	<b>1,562</b>	<b>1,882</b>

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<sup>4</sup> Advised by the Department of Transport.

## METHODOLOGY

The methodology that Treasury has used to cost the MAX Light Rail project is as follows:

- the scope of the costing advice reflects information provided by the Liberal Party, as well as publicly released MAX Light Rail policy statements.
- detailed scope elements (for example: length of light rail track, related roadworks and stations etc), where not explicitly specified in the Liberal Party scope advice, have been derived from information provided by the Department of Transport (DOT).
- the costing of the MAX Light Rail project is formulated on a unit rate and unit cost based estimating methodology, based on concept design estimates provided by the DOT.
- quantities contained in the DOT estimates have not been able to be fully reconciled and verified against the concept design, due to the limited time available. Therefore, the DOT quantities have generally been adopted.
- consistent with the DOT estimates, the applied unit rates represent direct construction costs, and have been benchmarked against recent public infrastructure projects and verified by an independent quantity surveyor engaged by Treasury.
- allowances for preliminaries, design fees and overheads and margins have been applied by the quantity surveyor, also benchmarked against recent public infrastructure projects.
- in recognition of the complexity of the project, its early stage of development and unique characteristics (i.e. a new public transport mode for Perth), a contingency allowance of 40% has been applied to the estimated infrastructure costs. This reflects the upper bound of the recommended contingency allowance for road projects<sup>5</sup> at concept stage, detailed in the Commonwealth Department of Infrastructure and Transport's *Best Practice Cost Estimation Standard for Publicly Funded Road and Rail Construction*.
- the applied escalation rates reflect the rates adopted in the new Perth Stadium and new Perth Stadium Transport Project Definition Plans. The escalation in these plans was based on the Australian Institute of Quantity Surveyors (WA) Construction Cost Index Forecast up to 2016-17. Escalation in 2017-18 was estimated by the cost planner for the new Perth Stadium Project Definition Plan at 5.3%, and it is assumed that this rate will remain constant in 2018-19.

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<sup>5</sup> As the MAX Light Rail Project is constructed within existing roads and will operate 'on-road', the road construction contingency allowance has been adopted.

- the cashflow profile adopted by Treasury in 2014-15 and 2015-16 is based on the profile announced by the Liberal Party.

In formulating the costing advice, Treasury consulted with representatives from the DOT.

### **COSTING OF ELECTION COMMITMENT - IMPACT ON STATE FINANCES**

The 2012-13 *Pre-election Financial Projections Statement* (PFPS) released on 7 February 2013 included a provision for estimated Nation Building Program 2 (NBP2) funding and expenditure over the forward estimates period. The Liberal Party has indicated it would fund the MAX Light Rail project over the forward estimates period from this provision. On this basis, the MAX Light Rail project has no impact on the forward estimates as published in the PFPS.

### **FUNDING ASSUMPTIONS**

Based on previous advice, it is understood that the DOT anticipates that 50% of the MAX Light Rail project would be funded by the Commonwealth through NBP2. Therefore of the total capital cost of \$1,882 million over five years, it is assumed that \$941 million would be funded by the Commonwealth and \$941 million would be funded by the State.

The provision of Commonwealth funding as anticipated by DOT is contingent upon successful application under NBP2. Whilst the application and assessment process has commenced, the Commonwealth has not yet committed to funding the delivery phase of the project.

### **COSTING RISKS**

- The availability of the assumed Commonwealth funding for this project is a risk. By way of illustration, if no Commonwealth funding is forthcoming, the debt impact of this project would increase by \$941 million.
- The MAX Light Rail project includes the purchase of 25 light rail vehicles. As Treasury has not examined demand projections for the proposed network, no comment is made on whether this number of light rail vehicles is sufficient to meet demand. If the demand for light rail services exceeds the capacity of the number of vehicles provided, additional vehicles may be required which would have an additional cost.
- This costing is only based on the capital cost of the project and does not include the operating costs (and operating subsidy) associated with the proposed light rail network— as these operating costs would not commence until after the current forward estimates period.



- This costing is based on the routes detailed in the current DOT concept designs. If an alternate route(s) is used this may involve additional costs.
- The number and location of stations identified in the current DOT concept designs have been adopted. If the number and location of these stations change, this will impact on the cost of the project.
- The DOT allowance for a light rail depot at the northern extremity of the network has been adopted. It is understood that the depot location has yet to be determined. Finalisation of the depot location may result in additional costs (over and above the contingency allowance).
- Similarly, the DOT allowance for land acquisition (in addition to land required for the depot) has been adopted. Finalisation of land acquisition requirements may also result in additional costs.

#### **OTHER ISSUES**

- The light rail network is proposed to be constructed along existing roads and through the future City Square<sup>6</sup> and Hay Street Mall in the city. The associated, significant interaction with vehicles and pedestrians will require careful management and is the subject of ongoing, detailed planning and investigation by the DOT.
- The introduction of the light rail service will impact on other public transport modes, particularly bus services. Further investigation is required to confirm the extent of these impacts and their consequences.

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<sup>6</sup> Public open space west of the Horseshoe Bridge, to be developed as part of the Perth City Link project.