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The Editor
The City News

Critique of the Light rail Stage 1 Project Delivery Report

On 21 June 2019, the Government released its City to Gungahlin Light Rail Project Delivery Report. Therein, the Government attempts to convince ACT taxpayers that Light Rail Stage 1 will cost only **$872 million** (January 2016 prices), whereas the project will in fact have a Public Private Partnership (PPP) contract price of **$1.35 billion** in April 2019 prices (delivery date), plus very significant other costs outside the PPP contract.

In respect of project costs, the Report makes two very serious errors, namely: to give the cost in January 2016 prices, which is very misleading, if not unethical; and which is the result of erroneous discounting of all costs paid or to be paid to the contractor, from January 2016 through to 2039 (end of 20-year operations period), at a rate of 7.52 % per annum. This discount rate was used during evaluation of the tenders for the project, but has no place in determining the Present Value of future Availability Payments the Government now has to make to the successful bidder, over the next 20 years of operations. In fact, by use of this rate, the Government is saying that the average depreciation of money from 2016 through 2039 would be 7.52% every year, which is obviously in error. The correct, average depreciation rate is more like 2.5% per annum which is used here to arrive at the real PPP contract price of **$1.35 billion**.

However, the cost to the taxpayer is much higher than the PPP contract price, because of project office expenditures since 2012, outside that contract, and the opportunity cost to the Government of the Capital Contribution of $375 million paid to the contractor in April 2019. Together, these represent and extra $250 million, bringing the direct cost to the taxpayer of **$1.61 billion** (2019 prices). To this sum, one can logically add the $600 million the Government is spending to rehouse 1,288 public tenants from Northbourne Ave, to make way for the tram. All up, the project is costing taxpayers about **$2.21 billion**. That translates into about $600 per household, for each of the next 20 years.

That is the cost equation – so, what are the supposed benefits? These will be a combination of grant money, revenue from operations and the so-called 'benefits' imagined by the Government.

There has been a grant of $65 million from the Federal Government, being 15% of public assets sold by the ACT Government, eg the ACTTAB. Revenue can be expected to come from fares (maybe $145 million) and from advertising (a guess of about $15 million), over the next 20 years.

The 2014 Business Case claimed a Benefit Cost Ratio (BCR) of 1.2 for the project, which the Government used to justify and approve the project, despite the Auditor-General having evaluated the BCR at only 0.49. The Project Delivery Report now claims the BCR could be 1.3 or even 1.5, even though it says, inter alia, that *"Benefits are held constant per the project's business case, updated for Territory cost outcomes."* and that *"While it is not possible to comprehensively re-value the project's benefits at this early stage, …".* Thus, the Government has presumed that the modus operandi for determining the BCR in the Stage 1 Business Case was and is still valid, despite having been heavily criticised by the Auditor-General and analysts alike.

The BCR of 1.2 comprised transport benefits, land use benefits and wider economic benefits, the quantification of which was and remains highly suspect. The A-G's report accepted that the transport benefits were valid, but that other benefits claimed were not necessarily due to the presence of a tram.

The big unknown is potential revenue from land sales/leases and rates charged thereafter by the Government. However, to the knowledge of the author, expected income from development of the corridor has never been made public, even if quantified by the Government. One must ask why not? One reason may be that, as early studies and some analysts have argued, development of the corridor, and the resultant Government take, would have been just as forthcoming with a Bus Rapid Transit (BRT) system, at half the cost of the tram. It is population growth that primarily drives development, tram or no tram.

Given potential revenue and the claimed transport and land use benefits, but omitting 'wider economic' benefits as unsubstantiated (the latter two not recognised by the A-G), the BCR is still only about 0.51, ie the best that Canberrans can expect as a return on their imposed 'investment', is 51 cents in the dollar.

It should be noted that one of the four recommendations made by the Auditor-General was that the Government should develop "*a whole-of-government Benefits Realisation Plan and associated documentation. This plan should identify and document the benefits to be realised by the project, their timing, ownership, critical dependencies for the achievement of the benefits and associated key performance indicators."* It is very unlikely that the Government ever did anything about this recommendation other than to ignore it.

ACT Taxpayers can thank the Cabinet of the erstwhile Chief Minister, Ms Gallagher, and the ultimatum for a tram demanded by Mr Rattenbury (after the result of the 2012 election), for saddling the vast majority of them with this very serious debt and the loss to other much more deserving projects for our city.

[This piece is a brief summary of a detailed critique of the Project Delivery Report, prepared by Smart Canberra Transport and sent to the Minister for Transport and City Services on 2Jul19]

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