SOUTH WEST GROUP
A Co-operative venture of the municipalities of:
Cockburn, East Fremantle, Fremantle, Kwinana, Melville & Rockingham

Tuesday, 7 October 2014
Enquiries: Mick McCarthy – (08) 9364 0631
Our Reference: South West Group Submission
Project Appraisal Framework

Department of Infrastructure and Regional Development
Bureau of Infrastructure, Transport and Regional Economics
GPO Box 501
CANBERRA ACT 2601

SUBMISSION ON THE PROJECT APPRAISAL FRAMEWORK PAPER PREPARED BY THE DEPARTMENT OF INFRASTRUCTURE AND REGIONAL DEVELOPMENT

This submission is provided in response to a paper prepared by the Department of Infrastructure and Regional Development titled "Overview of Project Appraisal" and released by the Assistant Minister for Infrastructure and Regional Development on 5 September 2014.

The South West Group, formed in November 1983, is a Voluntary Regional Organisation of Councils (VROC) comprising the Cities of Cockburn, Fremantle, Kwinana, Melville, and Rockingham and the Town of East Fremantle.

The South West Group is managed by a Board consisting of the Mayors and CEOs of its member local governments.

The South West Group seeks to work with these six local governments and through cooperation with industry, community and the other spheres of government to capture a wide range of opportunities to enhance economic growth as well as supporting a diversity of quality lifestyles whilst servicing and sustaining cohesive, productive communities in an enviable environmental setting.

The South West Group develops justifications and business cases for investment in regional priority projects for funding consideration by the State and Federal Government, many of which are related to transport and associated infrastructure.
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The proposal for the Bureau of Infrastructure, Transport and Regional Economics (BITRE) to develop project appraisal framework has merit and should enable greater transparency and consistency in decision making regarding investment in transport infrastructure projects.

The new framework seeks to improve how information on cost benefit analysis and wider economic modelling is disclosed to decision makers and the public.

It is proposed that the "wider economic benefits" will be considered along with traditional cost benefit analysis, and other factors in a revised best practice transport planning and appraisal framework in Australia based on:

- National guidelines for transport system management in Australia (NCTSM, 2006); and
- Infrastructure Australia's Better infrastructure decision-making (IA, 2013a)

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Given that there have been calls for greater transparency and consistency in decision making related to investment in transport infrastructure, the development of an appraisal framework as proposed is considered appropriate and is supported by the South West Group.

The BITRE is a widely recognised and highly regarded organisation that is well placed to develop the project appraisal framework on behalf of the Department of Infrastructure and Regional Development.

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In regards to issues that should be considered in developing the project appraisal framework, the South West Group recommends the following based on recent developments.

Induced Demand

Induced demands deals with behaviour change caused by the project where decisions made result in economic benefits or increased efficiencies associated with changes in transport modes (public transport), travel destinations or travel times.

The South West Group supports the inclusion of induced demand for project appraisals as it will assist in providing improved consideration of public transport projects and those that support lifestyle and behaviour change toward more sustainable forms of transport infrastructure.

Wider Economic Benefits (WEBs)

The new framework will give greater emphasis to the contribution infrastructure makes to improving productivity, in particular, estimating "wider economic benefits", which is a category of project appraisal that considers:

- ***agglomeration economies*** – productivity benefits from companies being close to one another and being located in large labour markets
- ***output change in imperfectly competitive markets*** – gains for goods and services and associated welfare gains through reduced costs or willingness to pay more, including % benefit uplift to business user benefits
- ***tax revenues from labour markets*** – additional benefits to society of the increase in tax revenues that accrues to the government

According to Infrastructure Australia (2013b)

'While it is recognised that the calculation of these wider benefits is still in its infancy, both in Australia and internationally, Infrastructure Australia believes the correct interpretation and accurate calculation of WEBs (using the most suitable data available) can add texture to the decision making process for certain proposals.

However, it is crucial to acknowledge that:

- *Only certain proposals will generate WEBs*
- *Significant WEBs will only be found in proposals with strong traditional benefits, since WEBs require high levels of behaviour change, e.g. strong demand for the new asset*
- *WEBs may be negative for some proposals, and*
- *The availability of Australian specific data needed to calculate WEBs is currently sub-optimal.'*

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There has been additional work undertaken in Perth by the Curtin University Sustainability Program (CUSP) Institute of Public Policy that examined wider economic benefits using a series of case studies including passenger rail infrastructure. This research showed that heavy rail and light rail attracted considerable wider economic benefits that needed to be factored into project assessments. CUSP also undertook research for the Committee for Perth that quantified value capture benefits associated with modes of public transport, including light rail (Committee for Perth, 2011).

The South West Group supports the inclusion of wider economic benefits in the project appraisal framework. This will ensure that assessments for projects, particularly public transport infrastructure projects such as light rail and bus rapid transit, include benefits related to:

- increased values associated with the up zoning land and
- value capture from surrounding land use

Both of these factors are not currently considered in project evaluation and traditional cost benefit analysis.

Productivity Metrics
Productivity benefits are those that directly affect Gross Domestic Product (GDP).

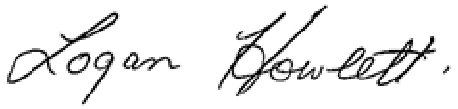
The main productivity benefits are WEBs and benefits that accrue to freight transport and business travel by private and public transport.

Productivity metrics can support the core decision making tool of cost benefit analysis by providing additional information to decision makers. It may be appropriate for the use of weighting being applied to productivity metrics, WEBs and other alternative forms of assessment to complement traditional cost benefit analysis and generate more holistic cost benefit ratios. This weighting approach offers a simple and transparent approach to reconcile decision making using social and productivity cost benefit ratios.

The South West Group supports the development of the project appraisal framework and would be happy to provide further feedback during its development phase. It is recommended that the Department also consult with CUSP and the Committee for Perth on research undertaken that directly supports, and provides case study examples, using the application of wider economic benefits methodology.

If you have any queries regarding this submission, please contact the Director South West Group, Mick McCarthy on (08) 9364 0631, mobile 0478 325 469 or email director@southwestgroup.com.au.

Yours sincerely



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