CAPITAL METRO AGENCY

10091

QUESTION TIME BRIEF
NOVEMBER 2014

SUBJECT: **BUSINESS CASE**

KEY POINTS:

- The Capital Metro business case has been approved by Cabinet.
- The project's business case was publicly released on 31 October.
- The business case was prepared pursuant to *The Capital Framework.*

ISSUES:

Release of the Business Case:

- It is an unusual step for a government to release a project's business case. The business case was released on 31 October 2014.
- This demonstrates the intent of the government to plan for and deliver this project in an open and transparent manner.
- The Government's commitment to publicly release information exceeds the recommendations of the cross-party *Select Committee on Estimates*. The Select Committee recommended:

  > *The Committee recommends that the ACT Government table in the Legislative Assembly, after the preferred tenderer has been selected, the final cost-benefit analysis, the estimated total cost to the ACT, and the delivery model for the Capital Metro project prior to the signing of any construction projects.*

- Construction contracts will not be signed until 2016. Instead, the Government:
  - Released a cost benefit analysis on 31 October, well before a preferred tenderer has been selected or construction contracts signed;
  - Released cost estimates on 31 October, well before a preferred tenderer has been selected or construction contracts signed; and
  - Has already confirmed the delivery model for the project as an Availability PPP.

Project Cost (Capex)

- The estimated capital cost of the project in nominal dollars is $610 million plus a $173 million contingency.
- The current estimate is consistent with the previous estimate of $614 million adjusted for escalation and risk.
- The contingency estimate was calculated after detailed risk analysis.

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Benefit Cost Ratio (BCR):

- The business case contains a "benefit cost ratio" ('BCR') of 1.2 which includes transportation benefits, land benefits and wider economic benefits.
- The BCR of 1.2 means that for every dollar the Capital Metro project costs to build and deliver, the ACT community will receive $1.20 back in benefits.
- This BCR demonstrates that Capital Metro will deliver net benefits to the community.
- The BCR comprises a range of:
  - Transportation derived benefits (time savings, vehicle operating costs, environmental, accident costs, health, amenity and reliability, residual value, public transport operating savings);
  - Land use benefits (urban densification, infrastructure efficiency savings); and
  - Wider economic benefits (such as bringing firms into closer proximity).
- The BCR was prepared by CMA's commercial advisors (EY) following industry accepted methodologies. It is a robust and realistic analysis.
- BCRs are just one tool available to Government in considering potential investments. They are not the only tool. Importantly:
  - they can vary significantly depending upon the methodology adopted;
  - they are a forward looking estimate, not a guarantee of what will actually occur; and
  - they are not particularly adept at capturing important social, environmental and community benefits.
- Note the 2012 Infrastructure Australia submission contained bus rapid transit BCRs of 1.98 to 4.78. However, when non-monetised benefits and other criteria were taken into account, that IA submission recommended light rail ahead of bus rapid transit.
- A number of transport projects have been progressed without Infrastructure Australia endorsement, or with BCRs around 1, including:
  - Sydney light rail extension to Dulwich Hill: 1.0 (delivered)
  - North West Rail Link (Sydney): 0.9 – 1.15 (2011 BCR, under construction)

Background

- The project's business case was prepared by Capital Metro Agency:
  - With input from its commercial, cost and other advisors;
  - Following the preparation of design and other technical reports;
  - Following community consultation activities; and
  - With consultation across Government.

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- The business case contains:
  - An outline of the project;
  - A needs and benefits analysis. The project offers both transportation benefits and will facilitate sustainable urban densification and regeneration;
  - Cost and contingency analysis;
  - Economic analysis, including a benefit cost analysis;
  - An analysis of delivery models; and
  - Financial analysis.
- The Business Case is robust and achievable.
- It is an unusual step for a Government to release a project's business case. However the business case was released on 31 October 2014 (including cost and benefit-cost ratio figures). The business case and procurement documents were released at the same time, ensuring a level playing field and consistency in documentation.

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KEY MESSAGES

Business Case:

- The Capital Metro project will deliver nearly $1billion of benefits to our community.
    - For every dollar the Capital Metro project costs to build and deliver, the ACT community will receive $1.20 back in benefits.
    - These include transport, land use, environmental, infrastructure and wider economic benefits.
- In the context of the whole ACT Budget light rail is affordable.
    - The ACT Government has spent $1.2billion on transport infrastructure in the last 10 years and $955million on health, education and community infrastructure in the last four years.
    - The Capital Metro estimated cost of $610million plus $173million of contingency represents an affordable long term investment in our future.
    - The project is being delivered as a PPP, which means the private sector bears the cost of building the light rail. The government then makes availability payments over 20 years when operation commences.
- Capital Metro will deliver time savings to all commuters in the Gungahlin-City corridor.
    - By 2020 congestion will cost the ACT $200million annually.
    - By 2031 without Capital Metro it will take over 50 minutes in a car to travel between Gungahlin and the City during peak time.
    - The travel time for the whole Capital Metro route will be 25 minutes.
    - By 2021 daily weekday patronage for light rail is anticipated to be greater than 15,000.
- The ACT Government is underlining its commitment to being open and transparent by releasing the full business case to the community, a step rarely taken by governments across Australia.
- At a time when the ACT economy needs it the most, Stage 1 of the Capital Metro light rail project will create over 3,500 jobs, with many of these anticipated to be filled by local industry.

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- Capital Metro will assist Canberra's entire transportation network as our population grows towards 600,000 in the next 30 years.

Government Decision:

- The Government has approved the Capital Metro business case and will be proceeding with the delivery of the project as a Public Private Partnership (PPP).
- The estimated capital cost of the project in nominal dollars is $610 million plus a $173 million contingency.
- The $610 million is in nominal dollars and includes escalation for capital expenditure through to the completion of the project (2016-2019).
- The $173 million contingency has been calculated using a comprehensive and detailed analysis of risks.
- The total cost of the project is stated as an estimate, the actual cost will be determined through a competitive market process.
- The estimated cost is consistent with previous estimates.
- The earlier $614 million estimate was stated in 2011 dollars with a range of -30% to +50% (i.e. a range of $430 million to $922 million) and was not based upon detailed designs. This new estimate is calculated using a much more thorough and conservative approach and more detailed designs.
- Following on from the Industry Briefing on 15 September, Expression of Interest (EOI) documentation was released on 31 October 2014.
- By committing to Capital Metro, the ACT Government is:
    - backing better public transport
    - backing infrastructure investment in Canberra
    - backing the revitalisation of the Northbourne Avenue corridor
    - backing smarter land use
    - backing jobs
    - tackling the increasing congestion along the entry to the national capital.

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Business as usual on the corridor is not acceptable, there are still costs associated with doing nothing.

- By 2031, modelling shows that an average trip in peak congestion between Gungahlin and the City could take more than 50 minutes. Compared to a journey of around 25 minutes for light rail, we see great value in the reliability of light rail.

Cost FAQs

- **How much will Capital Metro cost?**
  - The ACT Government anticipates that the **capital delivery cost** of the project, including contingency, will be **$783 million**.
- **Are these the actual costs that the ACT Government will pay?**
  - No. These are the ACT Government's estimates only. A competitive tender process will be conducted and the actual costs will be determined by the market.
  - Having selected to deliver the project as a PPP, the ACT Government will not make separate payments for building and operating Capital Metro, but a single regular 'availability payment' once the light rail is operational.
  - The ACT Government has compared the total cost of delivering the project as a PPP with traditional public delivery, and the PPP represents **11% lower cost**.
  - Ultimately the market will decide the cost.
- **Why has the delivery cost gone up?**
  - An estimate of $614m was previously contained within a 'City to Gungahlin Transit Corridor' Infrastructure Australia Submission in 2012.
  - The two primary differences between the estimate contained within the Full Business Case ($783m) and the earlier $614m estimate are that the $614m estimate did not include a separately identified contingency amount, or any costs escalation (it is in $2011).
  - On an approximate like-for-like basis, the earlier $614m quote becomes approximately $793m, which is actually slightly higher than the current cost estimate. So the cost estimate has not increased.

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- **How has risk been accounted for?**
  - The ACT Government's estimates of capital and operating costs include allowances for risk/ contingency.
  - Under a PPP, project risks are allocated to the group that is best placed to manage them. For example, risks can be 'retained' by the ACT Government, 'transferred' to the ACT Government's operations and delivery partner ('Project Co.'), or shared between the two.
  - Retained risk of **$71m** (NPC, P75) has been calculated for the PPP delivery model analysis and is reflective of a number of other potential retained or shared risks, including an allowance made for potential retained planning risks associated with the project.
- **What does P75 mean?**
  - The cost estimate is based upon a concept design produced by Capital Metro Agency's technical advisors and through a risk quantification process. It is a 'P75' estimate, which means that sufficient risk provisions have been included to provide a 75% level of confidence in the outcome i.e. that there is a 75% likelihood that the project cost will not be exceeded.
- **Why haven't you chosen a P90?**
  - A P75 model was determined as the most accurate representation. A P90 is often over conservative.
- **Does the $783m include the costs incurred by the agency to date?**
  - No – the capital cost and indeed the operating costs outlined in the business case look forward to the construction and operations periods. It is a capital delivery cost which may be bid by the private sector, so does not include ongoing ACT Government recurrent costs.
- **How can the ACT still afford this infrastructure given the funding required to support home owners affected by asbestos?**
  - The Cabinet has agreed that hospitals, schools, public transport and asbestos are now the four key priorities for the government to work on for the next five years.
  - ACT Government is AAA rated with a strong balance sheet. The ACT can cope with several significant investments simultaneously.
  - It is the responsibility of Government to continue with many major projects at one time, rather than focus only upon a single issue.

- Investing in Capital Metro does not inhibit the ACT Government from addressing the current asbestos issue.

- **Does this mean the government will not accept a cost above $783 million?**

  - The government is not willing to speculate on the outcome of the competitive market process. The final cost will be determined by the market through a competitive bidding process.

- **What will the availability payment be?**

  - The government is not willing to speculate on the outcome of the competitive market process. The availability payment will be determined by the market through a competitive bidding process.

- **Why can you estimate the capital cost and not the availability payment?**

  - Availability payments are calculated using assumptions around capital costs, ongoing operational costs and financing costs. Government does not propose to release financing cost estimates ahead of the procurement process, and so does not intend to release estimated availability payments.

- **Will the $173m contingency be used?**

  - Most of the contingency will not be held by Government. Under a PPP, the private sector will need to make appropriate risk allowances in the price that they bid. Cabinet has approved the project on the basis of the full contingency amount potentially being required.

Benefits FAQs

- **How do the benefits of the project compare with the costs?**

  - Capital Metro is expected to deliver almost **$1billion of economic benefits** to the ACT community

  - A BCR of 1.2 means that for every dollar invested in light rail, **$1.20** will be returned to the community.

- **What are the benefits of the project?**

  - $2.1 billion in **transport benefits** ($406m in present value).

  - $0.8 billion in **land use benefits** ($381m in present value).

  - $0.7 billion in **wider economic benefits** ($198m in present value).

- **How will local industry benefit from this project?**

  - We estimate Stage 1 of light rail will support over 3,500 direct and indirect jobs. While there will be a level of expertise that the successful consortium will bring to Canberra, we anticipate many of these jobs will be taken up by Canberrans delivering civil construction tasks that are very similar to what we see in road construction around the ACT today.

  - Capital Metro has put forward a policy that emphasises the government's interest in building local skills and providing competitive local business with the opportunity to be part of the project's delivery. Through the procurement process, there will be much emphasis applied around or aspirations and we will be keen to see this reflected in the detailed bids we receive.

Revenue FAQs

- **Who will take fare revenue?**

  - Under the Availability PPP structure, fare box revenue will be collected by the ACT Government, and not by the private sector entity. The operations phase will therefore result in revenues from operations through ticket sales to customers.

- **How much fare revenue will Capital Metro generate?**

  - The estimated annual patronage revenues in first full year of operations (nominal, $m in FY 2020) are **$5.5m**, with a net present value of from 2019 to 2039 of **$81m**.

Business Case and General FAQs

- **Why doesn't the business case compare city to Gungahlin to other routes?**

  - This body of work is focused on light rail between the City and Gungahlin. The Capital Metro Agency has been tasked with completing the required steps to make this first stage of light rail procurement-ready. This route provides the best opportunity to deliver against the government's objectives around sustainable growth, smarter land use, uplift of the Northbourne Avenue corridor and reducing congestion through moving people out of cars and onto public transport. The Light Rail Master Plan will look at which routes need to be prioritized following the delivery of Stage 1.

- **Busses had a higher BCR in the past, why not deliver busses?**

  - Busses will continue to be Canberra's main form of public transport for a long time to come. Capital Metro is about improving the transportation mix.

   - Bus rapid transit is not an appropriate urban design solution for the Northbourne corridor. We cannot turn the Northbourne median into a bus road.

   - We know that light rail provides the greatest opportunity for positive change to the Northbourne corridor, enhance the urban environment, attract more people out of cars and drive long term health and environmental benefits.

   - Previous ACT Government studies resulted in a recommendation for City to Gungahlin light rail when a variety of social, economic and environmental factors were taken into account.

- **The BCR is marginal; don't they need to be higher to be worth the investment?**

   - Our estimation is conservative, prudent and it demonstrates a positive return on investment for Canberra.

   - There are many projects delivered with a similar BCR to the estimated ratio for Capital Metro. For example:

      - Sydney light rail extension to Dulwich Hill: 1.0 (delivered)

      - North West Rail Link (Sydney): 0.9 – 1.15 (2011 BCR, under construction)

      - BaT Tunnel (Brisbane) – 1.16 (in planning)

- **How will people from other areas benefit from light rail and when will light rail service other parts of the city?**

   - The delivery of light rail will provide a net benefit for the wider public transport network, in addition to the wider ACT economy. It is always the case that a city needs to start somewhere when delivering new transport networks and as done in the Gold Coast, Sydney and Adelaide, we have made an assessment on the highest value section and that will be the foundation for the wider network. The light rail master plan project, which will be going through its consultation phase soon, is assessing and providing a level of prioritisation around the future directions for the network.

- **Will the utility relocations be included in this cost and when will this be undertaken?**

   - Utility costs have been allowed for in the total capital cost estimate. Nevertheless, cost risks are associated with the relocation of utilities. ACT Government is seeking to mitigate those risks through a variety of measures, including undertaking survey works and working with utilities providers to understand their requirements.

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- **Why is Gungahlin receiving so much new infrastructure compared to other areas?**

  - There is still a great deal of development occurring right across Canberra. It's worth recognising that Gungahlin, through its growth at five times the rate of the rest of the city, has required significant new infrastructure to support this growth. Other parts of Canberra have experienced growth spurts of a similar nature in the past and at that time they have been supported by the required infrastructure.

- **How will government fund this commitment and will a levy be used to do this?**

  - The government will use a PPP delivery model and this will mean that significant payments will not commence until the system is delivered and operational. From this point on, the government will make periodic payments to the consortium that will fund both the delivery of the system in addition to its ongoing operation, maintenance and high level of performance.

  - Government presently anticipates funding Capital Metro through ordinary budget measures.

- **How has the consultation influenced the design and hence the cost estimates?**

  - Consultation has certainly helped us to refine our design and plans for operations. The feedback guided us to:

    - Continue to identify suitable species of native trees for consideration as part of the Northbourne Corridor Plan

    - Remove of the Lysaght Street and Owen Flats/Visitor Information Centre stops.

    - Inclusion of the Wells Station Drive and Swinden Street stops.

    - Explore extension options for extending through the city and along Constitution Avenue.

  - Further work on the Dickson Interchange, with the Agency working across government to identify options and ensure the design meets plans for the area and encourages strong and safe integration with busses, pedestrians and cyclists.

  - Request rolling stock that has flexible ability to operate in wired and wire-free environments.

  - Continue investigating options for light rail vehicles to have capacity to accommodate bicycles, with further work contributing to a bicycle policy that prioritises passenger safety.

- **How long will the full trip take and how does that compare to travel times for bus and car?**

  - The estimated journey time for the full route is around 25 minutes. Given light rail will operate in its own corridor, this provides an advantage in terms of reliable travel times over both modes during peak periods.

  - Our modelling shows that by 2031 a motor vehicle trip in peak congestion between Gungahlin and the City could take over 50 minutes. When compared to the estimated journey time of 25 minutes for light rail, we see great value in the reliability of light rail.

- **How will Stage 1 support the development around Dickson?**

  - Dickson is set to become an exemplar transport orientated development, boasting a light rail stop, a bus interchange and a significant increase in mixed-use developments. Dickson is already changing for the positive today and light rail will help to increase the investment attraction for the precinct.

- **Have parking facilities been planned to support Stage 1 and if so where are they and are they included in this cost estimate?**

  - New and existing Park n ride facilities are certainly factored in along the light rail route, in addition to bus interchanges. Just recently, TAMS delivered a new park n ride facility in Gungahlin just 150 metres from the Gungahlin Place stop. CMA and TAMS are also investigating options for a new park n ride in Mitchell at Wells Station Drive. Costs for these facilities are managed by TAMs, with specific advice from CMA.

- **What has the ACT learnt from other cities that have delivered light rail such as the Gold Coast and Edinburgh?**

  - There are a number of learnings that we can draw form both of these projects and clearly, the Gold Coast has been far more successful than the Edinburgh project.

    - Significant work needs to be done to identify and plan for the appropriate movement or protection of utilities.

    - Early and open partnerships need to be formed with the community to build ownership.

    - Light rail delivery needs to be inherently linked with the vision for the city.

    - Each stage needs to be delivered with future expansion in mind.

- **Will the busses that are removed from this corridor be used to enhance the wider Action network?**
  - There is still a great deal of work to be done to plan the future network, which will aim to provide the best possible mix for the people of Canberra. It certainly does make sense to avoid duplication and utilise any changes to bus routes to add more services into the suburbs, but that detail will be confirmed closer to the light rail operations in 2019/20.

PPP FAQs

- **How will Capital Metro be procured by the ACT Government?**
  - The ACT Government won't build and operate Capital Metro.
  - The Territory will run a procurement process to choose a private sector consortium to design, construct, supply light rail vehicles, operate, maintain and finance the light rail system.
  - This arrangement is known as a Public Private Partnership (PPP).

- **What is a PPP?**
  - A PPP is a long-term contract, generally between 20 and 50 years, between the public and private sectors to deliver public infrastructure projects and/or related privately operated public services. Its defining characteristic is that the contract delivers public infrastructure assets or services using private sector finance.
  - The key benefits of a PPP approach include Government harnessing private sector efficiencies and innovation that can be created during construction, whole-of-life cost efficiencies, outcome-focused service delivery and effective risk transfer to the private sector.
  - PPPs have been used in Australia (and around the world) to deliver a range of social and economic infrastructure including courts, schools, hospitals, convention centres, correctional facilities, roads, public transportation networks and ports.

- **Why has the ACT Government decided to proceed with a PPP?**
  - Light rail projects are generally more complicated than road and building projects and difficult to deliver and manage. The ACT Government acknowledges that it has no experience in delivering or operating light rail.

- Based on extensive research and advice, the ACT Government has formed the view that delivering the Capital Metro project through a PPP is in the best interests of ACT taxpayers.

- **What are the benefits of a PPP?**

  - A Public Private Partnership will pass project risks to the private sector.

  - One of the major risks is ensuring the components of the Capital Metro actually fit and work together. Having all these components managed by a single consortium will minimise the risk of delays and cost overruns.

    - These risks are real. Recently the French government train operator (SNCF) ordered 2,000 new trains which were discovered to be too wide for many regional platforms. Consequently, the French government will now incur substantial costs in modifying the railway platforms.

    - Under a PPP model, such “interface” risks will be borne by the private sector, not the Territory.

  - Achieve Private sector efficiency. By seeking a “bundled” solution, the ACT Government is maximising the potential for innovation and cost efficiency from the private sector.

  - Achieve Price Certainty – the successful consortium will commit to a fixed price.

  - Achieve Timing Certainty – The successful consortium will be paid when milestones are completed.

- **What is the downside of a PPP?**

  - PPPs are typically more complicated to establish.

  - By taking on more of the risk, the private sector seeks a greater premium for their role in the project.

  - In this case, given the ACT Government has no experience in building and operating light rail systems, taking on the role of building and operating Capital Metro represents an unacceptable risk to the ACT taxpayers.

  - The PPP model is in the best interests of ACT taxpayers and the most efficient way to deliver this project.

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- **How does the PPP process work?**
    - The ACT Government will call for expressions of interest before appointing a consortium to undertake the works via a single procurement process.
    - There will not be separate procurement processes for each component of the work.
    - The successful consortium will be awarded a PPP concession period of 24 years, including an expected three to four year construction and commissioning period and 20 years of operations.
- **What is the makeup of a typical light rail PPP consortium?**
    - A PPP consortium comprises the key service providers that deliver the project.
    - This includes experienced constructors and designers, light rail operators, rolling stock manufacturers and financiers.
    - The consortium is normally led by the financiers and/or contractors who can provide equity into the project.
    - The financier will normally be the lead financier who sources funding for the project from secondary financiers.
    - The PPP equity holders and financiers drive efficiencies and value for money because they are incentivised by delivering the project on time and to budget.
- **How does a PPP drive efficiency?**
    - Price is a key consideration in deciding the successful bidder. Under a PPP, the Government presents the market with a 'need' and preliminary designs.
    - The competing consortium presents its best solution at their most competitive price. In order to win the project, consortia have to demonstrate their solutions meet the need and provide value for money. In the private sector, competition drives innovation and efficiency.
- **Why is it in the best interests of the ACT taxpayers to deliver all packages in a single bundle?**
    - The Capital Metro Light Rail has 4 key packages – Rail Infrastructure, Rolling Stock, Maintenance, and Operations.
    - Our preferred PPP model proposes to deliver them in one bundle.

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- The benefits of this approach include -

    - Reduction in "interface" risks – for example, if the ACT Government was to manage the packages separately it would take on the risk of delays in completion of the rail infrastructure and the delivery of the rolling stock. If there were delays the ACT taxpayers would be exposed to risks such as increased financing costs, storage of rolling stock and delays in the revenue stream. Under our preferred PPP model, these risks will be managed within the consortium with limited impact on the ACT taxpayers.

    - Bundling the packages increases the overall size of the bidding opportunity. This will help to attract the best and most experienced operators in Light Rail which in turn should lead to the most innovative and price competitive solutions.

- **How is a PPP managed?**

    - On establishment of the PPP, a set of Key Performance Indicators (KPI's) and milestones are agreed for the life of the project.

    - These will cover each aspect of the project from construction to the end of the operating period.

    - A payment schedule will incentivise the consortium to achieve project objectives and introduce innovation throughout the life of the project. This ensures innovation is not only linked to the design and construction phase but also to the ongoing operations.

- **What recent Light Rail projects in Australia have been delivered under a PPP?**

    - The Gold Coast Light Rail and Sydney Light rail projects.

    - Gold Coast Light Rail: The Gold Coast light rail project is one of the biggest public transport projects in the country, and the biggest transport infrastructure project ever undertaken on the Gold Coast. Aside from some early minor works, all packages were bundled. 6 consortia bid for the rights to build and operate the Gold Coast Light Rail.

    - Sydney Light Rail: In 2012 the NSW Government began the extension of the Inner West Light Rail line (Stage 2) and announced the $1.6 billion CBD and South East Light Rail project (Stage 3). In March 2014, the Inner West Light Rail was opened to the public. The CBD and South East Light Rail project is due for completion in 2019.

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  - These light rail lines will form the new Sydney Light Rail network, with reliable, high capacity services running north from Central to Circular Quay along George Street through the CBD, west to Pyrmont and Dulwich Hill, and south east to Kingsford and Randwick via Surry Hills, Moore Park and Kensington.

  - Again, aside from some minor early works, the procurement model for the PPP has bundled all major packages.

  - In the case of Sydney, 2 consortia remain after one of the shortlisted bidding consortia's withdrew citing the complexity of service removal in the Sydney CBD.

- Given there is a dedicated transport corridor along the centre of Northbourne Avenue and Flemington Road, Capital Metro is unlikely to face the same level of complexity as the projects in Sydney and the Gold Coast. It is anticipated that this will increase market interest in the project.

- **Why do we need private sector finance? Can't the ACT Government borrow money more cheaply than the private sector?**

  - On a dollar for dollar basis, the ACT Government can borrow more cheaply than the private sector. But this ignores some important points:

  - Driving Costs lower: within a PPP consortium, financiers are a driving force in delivering the best possible price for the client, in this case the ACT Government. Price is a key consideration is assessing the competing bids, so consortia will put forward their best possible price at the Request for Proposal stage. This helps reduce the overall amount of financing required for a project.

  - Competition in Procurement: Financiers are key parties in forming consortia to bid on PPP projects. The significant amount of capital required to fund the project is likely to attract a large number of financiers.

  - Risk Management: Financiers are skilled risk managers. They are rewarded when they deliver project milestones. For example, financiers have an incentive to ensure the light rail vehicles are delivered on time and on budget – otherwise they risk losing money through penalty payments. In this regard, the interests of the private financiers and the ACT community are aligned.

Why isn't the private sector taking patronage risk? If we're taking patronage risk, why bother with a PPP?

  - Patronage risk is only one risk in the project. There are substantial other risks, including interface and design risks.

- As the private sector PPP consortia rely on service availability payments from the government under a PPP, they have a strong incentive to provide superior customer service. The successful consortium engaged to deliver the infrastructure, operations and maintenance of the project will be subject to the delivery of a clear defined set of project objectives/milestones that must be adhered to for the annual payments under the terms of the contract to be fulfilled. These typically include quality - performance, reliability, safety and design.

- In depth project scoping and the assessment of risk by the Government provides greater benefits to the community due to the strong focus on due diligence and to the quality assurance measures put in place to monitor the project.

- The Australian private sector in not accepting new patronage risk in any transportation infrastructure projects.

- **Gold Coast cost $1.2bn, why would Capital Metro cost less?**

  - The Gold Coast light rail was a complex build, with multiple bridges and a great deal of property resumption. The proposed Stage 1 alignment is significantly simpler in construction terms.

- **On some occasions PPP's have not been successful in other states. Why should it work here and will private companies take on the risk?**

  - Some PPPs that have not been as successful in Australia in the last decade were overly ambitious in their patronage modelling. The conservative approach taken by Capital Metro Agency will help to ensure this is not the case in Canberra.

  - A University of Melbourne benchmarking study comparing the performance of 25 PPP projects and 42 government-owned and/or funded projects since 2000 found the average cost escalation under PPPs during construction was 4.3 per cent, compared with 18 per cent for traditional procurement contracts. The average delay during the same period was 1.4 per cent of PPPs compared with 25.9 per cent for traditional contracts.' Improving the outcomes of Public Private Partnerships (Clayton Utz)

- **PPPs include annual payments – what will this be for the ACT?**

  - This will be determined later in the process through the contract negotiations. The government has released capital expenditure costs and operating costs, but will not compromise negotiations by releasing financing costs.

- **How much interest has the Supreme Court project, as a PPP received and has that helped the procurement process?**

    - There has been strong interest in the Supreme Court project, with six consortia providing Expressions of Interest. This ACT Government commitment to PPPs will help the Capital Metro process.

- **How will the ACT afford to pay for future light rail extensions when we are paying significant installations each year for the next 20-30 years?**

    - The ACT Government's budget has doubled over the last 10 years and it will continue to increase, ensuring such important infrastructure projects continue to be affordable for the Territory.

    - It will be more economical to build light rail extensions due to the capital expenditure made in stage 1 (eg the depot may serve future extensions).

    - Whilst there are ongoing payments, there will be a great deal of value that will be provided to the Territory through ongoing services.

PPP Supporting Messaging

- The ACT Government will deliver the Capital Metro project using a Public-Private Partnership (PPP) delivery model.

Under the PPP model the private sector will design, build, maintain, operate, and finance the project including operation of Capital Metro over a 24 year concession period.

- The PPP delivery approach will:

    - ensure that the Territory can make use of the private sector's ability to innovate and achieve cost savings and efficiencies to deliver the light rail system.

    - means that the ACT Government will not directly build and operate Capital Metro. It will instead procure a private sector consortium to design, build, operate, maintain and finance the light rail system.

    - Integrate the project's numerous interfaces including rail Infrastructure, rolling stock, maintenance and operations.

- The ACT Government has not delivered this type of infrastructure before and attempting to do so without previous experience would present significant risks in delivery and cost.

- By packaging all the project elements and interfaces into one bundle, it increases the size of the project and the attractiveness to the market. This consequently attracts more bidders and competition. Other advantages of packaging interfaces into one bundle include:

- Elimination of the interface risk so that rail infrastructure, rolling stock, maintenance and operations work together.
- There is a single procurement process.
- There is only one delivery and operations consortium for the Government to work with.
- The ACT Government is able to appropriately transfer construction risks to the project financiers.

- Under the availability PPP delivery model, it is typical that government does not pay up front for the construction of the light rail infrastructure. The initial investment is committed by the consortium selected to deliver, operate and maintain the system. On successful delivery, government will then make regular payments (referred to as availability or service payments) to the consortium. The Government will pay for capital metro via quarterly availability payments commencing from the time the project is completed and commences operation.

- With the formation of the PPP there will be Key Performance Indicators and milestones developed for the life of the contract. There will be different KPIs for each aspect of the project which will be linked to payment mechanisms.
    - KPI's are established with customer requirements front of mind. These include reliable travel times, a safe travel environment, journey experience and accessibility.
    - The payment can be reduced, and the investors' returns adversely affected, if prescribed service levels are not maintained.

- The payment mechanism will also work to provide incentive to the consortium to achieve project objectives and innovate over the life of the project. This ensures that the innovation is not only linked to the design and construction phase but also to the ongoing operations. The PPP Company will have to meet specified performance standards in the operation of Capital Metro and the quarterly payments will be reduced if key performance indicators are not met.

- **Public Sector Comparator ("PSC"):** The PSC represents an estimate of the hypothetical, risk-adjusted whole-of-life cost if it was delivered by Government in a traditional way through separate design, construction and operational contracts. The PSC has been calculated in accordance with the National Public Private Partnership Policy and Guidelines (Volume 4 Public Sector Comparator Guidance). The PSC is presented in two ways within the business case:

- Nominal: a cumulative estimate of all costs including escalation across the whole project life.

- Net Present Cost: the estimate discounted to a single figure in today's dollars.

- **PPP Proxy:** The PPP Proxy is a simulated PPP bid. It is used to develop an understanding of the possible size of the availability payment that may need to be paid by Government. When bids are received the PSC and the PPP proxy will be used in the evaluation process and help achieve an understanding of the whole of life cost and value for money each bid represents.

- **Project Contingency:** All projects require contingency in their funding. In this regard:

    - Contingency is reserved funding to deal with risks and uncertainties on capital projects. These uncertainties will include changes in the prices for materials such as concrete, steel, labour, machinery and equipment hire and insurance, for example, between the time the estimate is prepared and the materials are actually purchased. Contingency also covers uncertainties in the actual final quantities of materials and other inputs required and an allowance for unforseen issues such as environmental, heritage, ground conditions or soil contamination that is unknown and has not been discovered through the project development period. For many projects where some materials must be imported, allowance needs to be made for possible exchange rate changes e.g. light rail vehicles.

    - As a project is developed the project scope and design become more refined, more detailed information becomes available and uncertainty is reduced. The cost estimate is progressively updated in the light of this greater knowledge and greater confidence can be given to the cost estimate. This normally allows contingency to be reduced as an overall proportion of the cost estimate.

- **Financial Analysis:** The Financial Analysis section of the business case provides an assessment of the viability and affordability of the project both for construction and the ongoing operations. It quotes a number of figures which need to be read in context. In this regard:

    - Table 38 "Raw Cost Estimates" presents the capital, operations, maintenance and lifecycle replacement costs. These estimates are 'raw' as they exclude any adjustment for risk. These whole of life estimates go beyond the construction cost and are generally only quoted in the context of complex delivery models such as PPP and Design Construct Maintain Operate ("DCMO") procurement.

    - Table 40 "Risk Allocation Summary". A PPP model transfers considerable risk to the private sector, far more than under traditional delivery models.

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- Table 43 “Total Risk Adjusted PSC Cost Estimate”. These figures include whole of life costs over a 20 year period of operations, maintenance and lifecycle replacement and are quite distinct from the construction cost.

- Table 44 “Base Case P75 Cost Estimates”. This a summary of the assumptions used to develop the PPP Proxy Model which is used to generate an estimate of the likely Availability Payment.

- The actual cost of the project will not be known until contractual and financial close have been completed, that is, the time the successful bidder is ready to commence work under the PPP contract to design and build Capital Metro.

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