PUBLIC ACCOUNTS COMMITTEE

REVIEW OF SELECTED WESTERN AUSTRALIAN INFRASTRUCTURE PROJECTS

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REVIEW OF SELECTED WESTERN AUSTRALIAN INFRASTRUCTURE PROJECTS

Report No. 14

Presented by:
Hon J.C. Kobelke, MLA
Laid on the Table of the Legislative Assembly
on 1 December 2011

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COMMITTEE'S FUNCTIONS AND POWERS

The Public Accounts Committee inquires into and reports to the Legislative Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Standing Order 286 of the Legislative Assembly states that:

The Committee may -

1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.

2 Inquire into and report to the Assembly on any question which -

(a) it deems necessary to investigate;

(b) (Deleted V. & P. p. 225, 18 June 2008);

(c) is referred to it by a Minister; or

(d) is referred to it by the Auditor General.

3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.

4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.

5 The Committee will investigate any matter which is referred to it by resolution of the Legislative Assembly.

CHAIRMAN'S FOREWORD

The PAC has the role of "considering whether the objectives of public expenditure are being achieved, or may be achieved more economically".

Western Australia is a rapidly growing State faced with huge infrastructure demands to sustain that growth and meet the needs of a growing population. It will not be possible to fund all the good projects required or desired with the limited financial resources available to the State.

This requires that we have decision making processes to ensure that each dollar spent on infrastructure projects delivers the required outcomes and does so as efficiently as possible. If we fail to follow these principles, lower priority and less effective projects will be funded, while projects of greater benefit to the people of Western Australia will not proceed due to lack of funds.

Over several years, State Governments have developed a suite of policies and processes for assessing each project involving significant expenditure. This is titled the Strategic Asset Management Framework (SAMF).

The application of the SAMF, or at least the adherence to SAMF principles, will ensure that there is a clear understanding of what is to be achieved by the project, that the project will deliver the intended outcomes and that in doing so it will deliver real value for money compared to alternative solutions.

The PAC completed a major report examining the planning and delivery of infrastructure projects in 2010 and has begun following up on a number of projects to assess the degree to which the SAMF is being applied and the benefits being derived from it.

In this report we present, without findings or recommendations, what we have observed in relation to four major infrastructure projects in Western Australia.

These are the:

Ord-East Kimberley Expansion Project

Collgar Wind Farm

Perth Waterfront Redevelopment

Perth City Link

Some of these have a clearer definition of what is to be achieved than others.

It is possibly too early in these projects to have the necessary data to determine how well they deliver the intended outcomes. Of course where the expected outcomes are poorly defined it is difficult to have an unambiguous objective assessment of the degree to which the required outcomes are achieved.

With three of these projects being driven by loosely defined social outcomes, it is near impossible to objectively assess whether the State is getting value for money. An assessment of the value of these projects will be largely a subjective judgement based on the value an individual places on the outcomes.

I appreciate the contribution made by all members of the committee to the work that has produced this report. The Committee is most thankful to our two Principal Research Officers who worked on the report, Dr Loraine Abernethie and Mr Mathew Bates and our Research Officer, Mr Foreman Foto for their commitment and professional support to the Committee.

HON J.C. KOBELKE, MLA
CHAIRMAN

ABBREVIATIONS AND ACRONYMS

Aboriginal Development Package	ADP
Benefit-Cost Ratio	BCR
Central Business District	CBD
East Perth Redevelopment Authority	EPRA
Expression of Interest	EOI
Indigenous and Community Development Program	ICDP
Managed Investment Schemes	MIS
Megawatts	MW
Megawatt Hours	MWh
Miriuwung Gajerrong Corporation	MG Corp
Moonamang Joint Venture	MJV
Ord Final Agreement	OFA
Ord River Irrigation Area	ORIA
Perth Link Project	PCL
Public Transport Authority	PTA
South West Interconnected System	SWIS
Strategic Asset Management Framework	SAMF
Strategic Asset Plan	SAP
Tropical Forestry Services	TFS
Wellington Street Bus Station	WSBS
Western Electricity Market	WEM

EXECUTIVE SUMMARY

At the conclusion of its major report into the delivery of infrastructure projects in Western Australia, the Public Accounts Committee undertook to continue the examination of infrastructure development by the Western Australian Government. In doing so, the Committee acknowledged that, despite the existence of a thorough suite of policies in the Strategic Asset Management Framework, some infrastructure projects continued to be delivered late, over-budget, or both.

The following four projects have been examined:

- The Ord-East Kimberley Expansion Project
- The Collgar Wind Farm
- The Perth Waterfront Redevelopment
- The Perth City Link

The Committee has taken the view that the Ord-East Kimberley Expansion Project is primarily social in its focus, as the need underpinning the project relates to providing a more robust economic base for the East Kimberley and, therefore, increased opportunities for local Indigenous people to engage in the economy. Despite this, the Committee has noted the considerable uncertainty surrounding the viability of agriculture in the Ord, especially as it is unclear that the $220 million being spent to develop an additional 7,700 hectares of land will provide sufficient amounts of new agricultural land to support local processing of agricultural products, and therefore boost local employment.

The Collgar Wind Farm represents a unique project inasmuch as the agency responsible for establishing the requirement for renewable energy generation, Synergy, is forbidden by legislation from owning generation assets. As a result, the Committee has examined the processes used by Synergy when selecting the Collgar Wind Farm as a supplier of renewable energy.

The Perth Waterfront Redevelopment was examined for its compliance with SAMF, and the Committee sought detail as to how the current iteration of the project was able to respond to the need underpinning the project. The Department of Planning reported that the project would be scaled back to reduce risks associated with over-supplying the Perth property market with development sites in the CBD.

The Committee examined the Perth City Link project and found that there had been significant increases in the cost of the project due to the initial costs identified in 2008 and 2009 being very premature particularly with respect to both costing and the identification of the scope of the project. The government’s initial submission to the Commonwealth requested only $263 million, which was for the sinking of the railway, and mentioned that the larger project would include sinking the bus station, although no funding was requested for this. The Commonwealth responded by offering $236 million to fund half of the then cost of sinking the railway and bus station. Given that the Commonwealth has fixed its contribution, and that the total project cost is now $737 million, the cost to the Western Australian taxpayer is more than $500 million, which is significantly more than the initially projected $236 million.

CHAPTER 1 INTRODUCTION

In late 2010, the Public Accounts Committee completed a major report examining the planning and delivery of infrastructure projects in Western Australia. In conducting its review, the Committee was guided by the Western Australian Government's Strategic Asset Management Framework (SAMF), which is a suite of policies designed to improve asset management and capital investment in the public sector. Through the thorough and consistent application of a detailed set of policy guidelines, SAMF should allow government to minimise key risks associated with infrastructure delivery, including:

- risks to delivery schedule and/or budget;
- risks that the project will not deliver the intended outcomes; and
- the risk that the project will be under-utilised.

Despite the existence of a thorough set of policies in SAMF, the Committee noted that projects were still succumbing to the risks outlined above. The Committee also observed that there were a number of proposals under the 'works reform program' that are intended to further refine SAMF and improve the delivery of major infrastructure in Western Australia. Given the efforts to refine SAMF, and the continued poor performance of infrastructure delivery in general, the Committee resolved to follow-up a small number of infrastructure projects in order to assess the effectiveness of these reforms.

Although the Committee's principal aim was to ascertain the extent to which SAMF has been complied with, it was also keen to establish what processes had been utilised in situations where SAMF had not been followed. This was particularly so in relation to the methods used to identify the outcomes the projects are expected to meet.

This is the Committee's first infrastructure follow-up report. The following four projects have been examined:

- The Ord-East Kimberley Expansion Project
- The Collgar Wind Farm
- The Perth Waterfront Redevelopment
- The Perth City Link

The various projects represent a broad cross-section of the type of infrastructure delivery currently being carried out in Western Australia.

In the case of the Ord Expansion, the Committee examined the justifications underpinning the need for the project and queried the extent to which the project, in its current form, is sufficient to address the social challenges facing the Kimberley's Aboriginal population.

The Collgar Wind Farm represents a unique project inasmuch as the agency responsible for establishing the requirement for renewable energy generation, Synergy, is forbidden by legislation from owning generation assets. As a result, the Committee has examined the detail of the processes used by Synergy when selecting the Collgar Wind Farm as its supplier of renewable energy.

The Perth Waterfront Redevelopment is a land and public infrastructure development taking place on the foreshore of the Swan River, adjacent to Perth’s central business district. Its aim is to reconnect the city with the river and activate a previously under-utilised space and provide additional land for development in the city. The Committee examined the project in terms of its compliance with various SAMF principles and briefly examined how the current iteration of the project varied from earlier proposals.

The Perth City Link is another land development in the city centre. The project involves significant engineering work to sink existing public transport infrastructure in order to allow for the land developments. The Committee examined how changes and refinement had led to significant increases in the projected costs of the project.

Each chapter can be read as a stand-alone document, although all chapters are linked by the common theme of adherence to SAMF principles.

CHAPTER 2 THE ORD-EAST KIMBERLEY EXPANSION PROJECT

2.1 Background

In 2010, we examined the Ord-East Kimberley Expansion Project in our major report into infrastructure planning and funding in Western Australia. The Expansion Project consists of two separately funded elements—a $220 million expansion of the Ord River Irrigation Area (ORIA) to include 7,700 hectares of new agricultural land in the Ord River Valley and a package of social infrastructure developments in the East Kimberley totalling $195 million. The Western Australian Government is providing funding for the $220 million ORIA expansion and the Commonwealth Government is funding the social infrastructure developments.

The Commonwealth Government's $195 million contribution for social infrastructure is not a principal focus, although its aims are closely linked to those of the ORIA expansion.

In our earlier report, we discussed the social outcomes expected from the ORIA expansion. We noted that the justification for the ORIA expansion relied heavily on addressing various socio-economic disadvantages affecting the indigenous and, more specifically, the Miriuwung Gajerrong peoples of the East Kimberley.

We reviewed a business case evaluation prepared by Marsden Jacob, a consulting firm, and took the view that it would be difficult to justify the expenditure of $220 million to expand the ORIA on purely economic grounds. We did note, however, that infrastructure projects may still be justified on the basis of their social outcomes, even in circumstances where their economic benefits are minimal or negative.

Given our earlier doubt about the economic benefit of the project, we have determined to take a closer look at the various components of the Ord-East Kimberley Expansion Project and, in particular, to seek an update on the extent to which the expansion is delivering on its promise to improve social outcomes for Aboriginal people in the Kimberley.

2.2 Examining the need

In our major report—and indeed also throughout the various projects examined in this follow-up report—we have returned on multiple occasions to the importance of establishing the need for a project. The *Works Reform Business Solution Plan* from June 2009 noted that a major problem with asset management in Western Australia has been a 'lack of real data to support need for many proposed capital works projects and failure to articulate the objective of the project'.[1]

Having identified need as a critical element of successful infrastructure delivery, we investigated this issue in more detail in relation to the Ord-East Kimberley expansion. The foreword to the

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1 Department of Treasury and Finance, *Works Reform Business Solution Plan*, June 2009, p. 15.

Ord-East Kimberley Development Plan, a document jointly published by the Western Australian and Commonwealth governments, contains messages from various political figures and each of them highlights a different perspective to the needs underpinning the project.

According to the then Prime Minister, Kevin Rudd, the project is intended to build 'a stronger future for people in the East Kimberley' and 'tackle the economic downturn and stimulate the economy' whilst fostering the 'growth and sustainability of this high productivity region'.[2]

The Western Australian Premier, Colin Barnett, stated that that project creates 'an exciting new economic growth centre in northern Australia' that will 'trigger new opportunities for investment, business and employment, across a wide range of economic activities'.[3]

The Commonwealth's Parliamentary Secretary for Northern and Western Australia, Gary Gray, was of the view that the ORIA expansion promotes 'meaningful and sustainable jobs for local Indigenous people' and would 'contribute towards improving employment levels, economic development, wealth, participation and quality of life for the local community (including the Miriuwung and Gajerrong People), through the expansion of agricultural and horticultural land and the improvement of related infrastructure.'[4]

Western Australia's Minister for Regional Development, Brendon Grylls, focussed on the agricultural aspects and noted that the project would 'carry the available waters of Lake Argyle to new areas of the magnificent Ord River Valley and to engage the Miriuwung and Gajerrong traditional owners in meaningful business partnerships and sustainable jobs.' Mr Grylls also reported that the ORIA expansion would 'showcase full Indigenous engagement [in the economy]'.[5]

Teddy Carlton, the Chairman of the Miriuwung Gajerrong Corporation (MG Corp), emphasised the positive outcomes expected for the local indigenous community when he noted that the ORIA expansion 'allows for employment and business opportunities for the Traditional Owners of this country'.[6]

It is fair to say from the statements highlighted above that there are two impulses underpinning the need for the project, and that these impulses are directly linked:

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2 Hon. Kevin Rudd MP, Prime Minister, in Department of Regional Development and Lands, *Ord-East Kimberley Development Plan*, p. 3.

3 Hon. Colin Barnett MLA, Premier, in Department of Regional Development and Lands, *Ord-East Kimberley Development Plan*, p. 3.

4 Hon. Gary Gray MP, Parliamentary Secretary for Western and Northern Australia, in Department of Regional Development and Lands, *Ord-East Kimberley Development Plan*, p. 3.

5 Hon. Brendon Grylls MLA, Minister for Regional Development and Lands, in Department of Regional Development and Lands, *Ord-East Kimberley Development Plan*, p. 4.

6 Mr Teddy Carlton, Chairman, Miriuwung Gajerrong Corporation, in Department of Regional Development and Lands, *Ord-East Kimberley Development Plan*, p. 4.

- The need to develop a sustainable and viable economy in the East Kimberley.

- The need to improve the socio-economic outcomes for the indigenous people of the region by engaging them in the opportunities made available through this sustainable economy.

A conventional application of the Strategic Asset Management Framework (SAMF) principles requires that these needs be identified and a number of options considered in how best to respond to these needs. We saw no evidence that this was carried out, but the need for the project was discussed in a number of documents, including a business case analysis conducted by Marsden Jacob, an economics consultancy, in 2008. Despite the lack of a discrete document establishing needs and the various ways in which they could be responded to, it remains worthwhile to consider the extent of those needs.

(a) Indigenous disadvantage

During our visit to Kununurra, we heard from those with first-hand experience of the extent of Indigenous disadvantage in the East Kimberley. Life for most Aboriginal people in the East Kimberley is marked by several negative factors:

- **Poor health**: Babies born to indigenous mothers are more likely to suffer from low birth weights, and infant mortality for indigenous children is higher than that of the general population. Indigenous people are also more likely to suffer from chronic diseases (including an incidence rate of diabetes more than eight times higher than the general population), and die on average twenty years younger than other Australians.[7] In 2009, the Kimberley region had the highest suicide rate in Western Australia, with more than 20 people per 100,000 taking their own lives each year.[8]

- **Unemployment**: In 2009–10, the unemployment rate in the Kimberley region was estimated by the Australian Bureau of Statistics to be 8.3 per cent.[9] Marsden Jacob estimated that the unemployment figure for the Indigenous community in 2008 was over 18 per cent. The extent of the unemployment problem is masked, however, by low Indigenous labour force participation rates: only 55 per cent compared with non-indigenous participation rates of 87 per cent.[10]

- **Poverty**: In 2001, per capita income for indigenous people was one-third of that of the non-indigenous population.[11]

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7 Department of Industry and Resources, *Ord Expansion Project: Business Case Evaluation*, report prepared by Marsden Jacob, August 2008, p. 52.

8 Department of Health, *Submission to the Senate Standing Committee on Community Affairs*, 1 October 2009, p. 1.

9 Department of Regional Development and Lands, *Kimberley: A region in profile*, 2011, p. 3.

10 Department of Industry and Resources, *Ord Expansion Project: Business Case Evaluation*, report prepared by Marsden Jacob, August 2008, p. 46.

11 Ibid p. 52.

- **Poor education outcomes**: In 2001, over 10 per cent of indigenous adults in the East Kimberley had not attended school and less than 25 per cent of Year 7 indigenous students met benchmark standards in numeracy and reading.[12] There are currently no Miriuwung Gajerrong students set to graduate from high school this year, or next year. Furthermore, by the time indigenous children start school, they are already behind their non-indigenous classmates, from a developmental perspective, often by as much as 1.5 years.[13]

- **Housing**: The level of home ownership amongst the indigenous community is significantly lower than amongst the general population.[14] We heard several reports whilst in Kununurra of the extent of the housing crisis confronting the Aboriginal community, including chronic overcrowding. The lack of housing may be negatively impacting on the ability of the various Aboriginal assistance programs to meet their aims and this is an issue that we return to in later sections of the report.

(b) Uncertain future: the economy of the East Kimberley

Implicit in the statements from the various political figures outlined earlier is an unspoken assumption: the economic basis for the East Kimberley, as it exists currently, is not sustainable over the long term. This is also the conclusion reached by Marsden Jacob in its analysis, which comes to this conclusion for a number of reasons, including:

- The cessation of above ground mining activities at the Argyle Diamond Mine in 2011 and subsequent loss of employment. (Rio Tinto has subsequently committed to underground operations at Argyle, which has meant that mining related employment will continue for several years, although at a reduced rate).

- The closure of the sugar mill in 2008 and the subsequent loss of employment and associated economic activity in the region.

- The loss of viability and diversification among Stage 1 irrigators and the loss of employment in the Kununurra region. It should be noted that an earlier report undertaken by Marsden Jacob also found that failure to proceed with an expansion to the ORIA would reduce economic activity in Stage 1 of the irrigation scheme.[15]

Even the Western Australian Government acknowledged, in its *Ord-East Kimberley Development Plan*, that economies of scale were an issue that impacted on the viability of agricultural production in the ORIA. For production from the Ord to be competitive in free-trading global markets, the scale of agricultural production has been seen as a significant factor.[16]

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12 Ibid.

13 Mr Franklin Gaffney, Chief Executive Officer, MG Corporation, Briefing, 21 July 2011.

14 Department of Industry and Resources, *Ord Expansion Project: Business Case Evaluation*, report prepared by Marsden Jacob, August 2008, p. 46.

15 Ibid., p. 28.

16 Department of Regional Development and Lands, *Ord-East Kimberley Development Plan*, p. 47.

Marsden Jacob built an economic model based on the assumptions outlined above and found that the economic output for the region in 2018 would total $116 million lower than it otherwise would have been unless another form of economic activity was found to offset the declines detailed above. The modelling thoroughly establishes that the economic base for the East Kimberley is not sustainable unless some form of new investment takes place.[17]

The critical issue, and one that SAMF requires decision makers to consider, is what options there are in responding to these problems. It is not clear whether active consideration was given to other options before proceeding with the current expansion.

In that case, it is still possible to assess the response as it is being implemented currently.

2.3 Assessing the response

(a) Examining the economics

If we accept that the outcomes to be achieved through this project are the creation of a more sustainable economic base and a means to address indigenous disadvantage in the region, then it stands to reason that the economic basis for the state government's decision to invest in the ORIA expansion should be sound.

Conventional economic appraisals suggest that this may not be the case. A standard approach to assessing the economic viability of the project would be to subtract the total value of land sales from the total spend on infrastructure. In this case, the infrastructure spend is $220 million and the figure for land sales is at this time unknown.

Average figures for land sales values are available and Marsden Jacob examined these in its business case evaluation in 2008. Marsden Jacob found that the average sale price for the five year period ending in December 2007 was $7,500 per hectare. Prices in the latter half of 2007 firmed to around $8,800 per hectare.[18] The report went on to note that the market for land in the ORIA had been underpinned by strong demand from the sandalwood industry. It was observed that, in the absence of demand from sandalwood growers, the value of any new land released under the expansion would be lower than the historical average.

We understand that the land being developed in the Weaber Plains for the ORIA expansion contains soil that is less suitable for the production of sandalwood trees. Taking this into consideration, we have assumed no growth in the average price for land since the 2007 average figure of $7,500 per hectare found by Marsden Jacob.

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17 Department of Industry and Resources, *Ord Expansion Project: Business Case Evaluation*, report prepared by Marsden Jacob, August 2008, p. 33.

18 Department of Industry and Resources, *Ord Expansion Project: Business Case Evaluation*, report prepared by Marsden Jacob, August 2008, p. 22.

The land being made available will not, however, include the provision of services (i.e. electricity and telephones) and will not be cleared of natural vegetation and levelled. This means that the land being sold is unlikely to match the price of land in the existing development that has already been made ready for agricultural production. As a result, it is impossible to speculate as to whether the sale price of the land will meet its expected value and so it is therefore difficult to calculate what the net cost of the project to government will be.

Having said that, even if land were to sell at $7,500 per hectare, the direct return on the government's $220 million investment would be less than $60 million.

It may be that the net direct cost to government will end up being quite large, but if all projects were considered on this basis alone, very few would ever be approved for construction.

Policy practitioners are often required to discuss first and second round impacts of policies. The net direct cost outlined above is a first round impact, but governments must also give consideration to the second round impacts of their decisions in order to fully assess the value of proposals.

It is to these second round economic impacts that we must now turn our focus.

(b) Agricultural production in the ORIA

Economic activity generated as a result of the investment in the ORIA is one such second round impact. As the current project is an expansion of an existing infrastructure investment, there exists an opportunity to examine the returns achieved by the original investment and to compare these returns against the expectations underpinning the most recent investment.

In 1993, Hassall & Associates, an agricultural consultancy firm, published an economic evaluation of the Ord River Irrigation Project for the Kimberley Water Resources Development Office. The report contains a detailed cost-benefit analysis which concludes—having adjusted for inflation and using 1990–91 dollars—that 'total project costs of $876 million exceeded total project benefits of $379 million by $497 million'.[19] In other words, the cumulative cost of the Ord Project to the public since its inception was just short of $500 million in the early 1990s. Importantly, the private benefits generated from the sale of agriculture products were calculated by Hassall to be in the order of $14 million.[20] [21]

The underwhelming economic picture painted in 1993 may not be as true today, particularly given that agricultural production has expanded significantly since the Hassall Report. In 1993, only

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19 Hassall and Associates, *The Ord River Irrigation Project – Past, Present and Future: An Economic Evaluation (Stage 1)*, prepared for the Kimberley Water Resources Development Office, August 1993, p. 44.

20 Hassall and Associates, *The Ord River Irrigation Project – Past, Present and Future: An Economic Evaluation (Stage 1)*, prepared for the Kimberley Water Resources Development Office, August 1993, p, 44.

21 Hassall and Associates, *The Ord River Irrigation Project – Past, Present and Future: An Economic Evaluation (Stage 1)*, prepared for the Kimberley Water Resources Development Office, August 1993, pp. 28–29.

4,500 hectares were being utilised for agricultural purposes. In fact, it would seem that for many years, the irrigation area was massively under-utilised. In 1980, only 3,581 hectares were under cultivation, a figure lower than the 5,500 hectares under cultivation in 1967.[22]

The Hassall Report notes that the gross value of agricultural production in the ORIA increased from the mid-80s to the early 90s from around $6 million to $25 million in 1990–91 dollars.[23] It was observed that the increase in production was largely due to improvements in the approaches to farming in the ORIA, particularly the adoption of high value low volume crops.[24]

The value of agricultural production in the ORIA appears to have continued to increase through the 1990s and early 2000s, although annual rates of growth would appear to have slowed. In 2007–08, the value of irrigated farm activity in the ORIA was in excess of $95 million.[25] The most recently available figures, for 2010, indicated that the total value of irrigated farm activity in the region was $122 million. This figure comprised estimates of $31 million from agriculture and an imputed value of $91 million from sandalwood.[26]

Throughout the life of the ORIA a number of crops have come and gone from the region. In the early 1960s, when the earliest agricultural developments commenced, the Western Australian Government recommended that farmers grow cotton.[27] Problems arose early, however; particularly with respect to insect control and cost—cotton production was nearly three times more expensive in the ORIA than it was in the cotton producing regions of New South Wales.[28] Pesticide-resistant insects and poor cotton fibre quality finally saw the end to cotton production in 1974.

As noted a little earlier, Hassall concluded in 1993 that the economic performance of the ORIA improved once high value low volume crops had been adopted. It is easy to see how this shift in crop type would be an improvement when some of the numbers associated with cotton production in the 1970s are considered. In 1974, for example, insect control costs represented 50 per cent of growers' total costs and freight charges accounted for two-thirds of cotton marketing costs.[29] The ORIA simply could not compete with other cotton growing regions in Australia. The effect of

22 B.R. Davidson, 'Economic Aspects of the Ord River Project', *Lessons from the Ord,* The Centre for Independent Studies, p. 18.

23 Hassall and Associates, *The Ord River Irrigation Project – Past, Present and Future: An Economic Evaluation (Stage 2)*, prepared for the Kimberley Water Resources Development Office, August 1993, p. 3.

24 Ibid.

25 Department of Regional Development and Lands, *Ord-East Kimberley Development Plan*, p. 45.

26 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 2.

27 Susan Graham-Taylor, 'A Critical History of the Ord River Project', *Lessons from the Ord*, The Centre for Independent Studies, p. 36.

28 Ibid., p. 37.

29 Ibid., pp. 44–45.

distance was insidious, driving up the costs of fertilisers and pesticides and increasing the cost of transporting produce to markets.

In 1976 the state government concluded that there was no viable crop that could be produced in the ORIA, but it did commit to expanding agricultural research and established a pilot sugar farm as the first step to creating a sugar industry in the region.[30]

It was only in 1995, however, that a sugar mill was established. It ceased operation in 2007. Francis Bright, the Department of Agriculture and Food's regional economist, told us that the closure was not due to the sugar industry being uneconomic. He noted that returns from other land uses were greater, which meant that sugar cane could no longer compete with those other land uses.[31] There are other reasons for the disappearance of sugar from the ORIA, including the scale of production required. This is an issue that we examine later.

The experience with cotton and sugar—and also rice—indicates that the search for a 'base crop' in the Ord has thus far remained unresolved. Economics, climate and biology (in the form of insects and diseases) together have meant that there is no one type of crop that currently dominates the ORIA. A base crop would provide economies of scale for the establishment of local processing and create local employment and economic activity.

There has been some success, however, with horticultural crops, including mangoes, pumpkins and melons. Chia has also recently emerged as a viable crop. Despite this, agriculture's contribution to the total value of production in the ORIA has been falling in line with the number of hectares utilised for agriculture. Last year, 7,074 hectares were devoted to agriculture and 6,163 hectares to sandalwood.[32]

Given sandalwood's emergence as the single largest land use in the ORIA, it is probably fair to say that sandalwood has emerged as the region's base crop. Given the lengthy growing cycle—the oil from Indian sandalwood can only be harvested after fifteen years—the economic viability of sandalwood has yet to be proven, as no sandalwood produced in the ORIA has yet been sold in the market. Two trials have been conducted on sandalwood planted by the Western Australian Government's Forest Products Commission. The first, in 2006, was conducted on 14-year old trees, while the second trial was completed in 2011 and conducted on trees between 19 and 23-years old. It has been reported that in both instances the trials demonstrated that the trees were producing oil at commercial yields.[33] Having said that, trees planted by Tropical Forestry Services (TFS)—the largest sandalwood producer in the ORIA—are only approaching 12-years old, so their production yields on an expected growing cycle of 15 years are not yet established.[34]

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30 Ibid., p. 46.

31 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 3.

32 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 2.

33 Bell Potter, 'Tropical Forestry Services', *Cashing in at harvest*, October 2011, p. 4.

34 Bell Potter, 'Tropical Forestry Services', *Cashing in at harvest*, October 2011, p. 2.

When assessing the decision to make the investment in the ORIA expansion, it is appropriate to consider the past performance of the existing development. We can see that development costs have been significant, private returns—although demonstrating improvement—marginal, and crop viability questionable. Marsden Jacob, in its 2008 report, came to the same conclusions when it found that 'the current size and scale of irrigated agriculture is not self-sustaining'.[35]

Despite the patchy past performance of the ORIA, further expansion of the irrigated area may address the issues that have undermined agriculture's viability in the region. Marsden Jacob argued, and the project's proponents imply, that expansion of agricultural activity represents one of the better opportunities to provide a sustainable economy in the region.

There are, however, many challenges that obstruct the achievement of this goal and we provide an outline of them in latter parts of this chapter.

(c) Targeting Indigenous disadvantage

Achieving sustainable responses to address the types of indigenous disadvantage outlined earlier is a critical second round policy impact. The ORIA project is attempting to address this through two mechanisms:

- Providing training and development opportunities to local indigenous people through employment and training on the engineering schemes associated with the ORIA expansion.

- Developing a sustainable economic basis for the region going forward, and which then allows for the creation of employment opportunities in the community.

We note that no analysis was undertaken to establish whether the $220 million being expended on the ORIA expansion would produce better outcomes for indigenous communities than if the money had been invested in alternative projects to tackle the disadvantage.

This section of the report will focus on the training and development aspects of the ORIA expansion.

The direct indigenous assistance associated with the ORIA expansion consists of two separate but connected components. The first is the Aboriginal Development Package (ADP) which arises from the native title settlement known as the Ord Final Agreement (OFA). The agreement makes the expansion project possible by negotiating a settlement to native title claims in the region. It also includes a $57 million compensation package for the extinguishment of native title in an extensive tract of land in the East Kimberley and for the negative environmental and social impacts of Ord Stage 1. The major components of the OFA include:

- $24 million over 10 years for the establishment and operation of the MG Corporation;

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35 Department of Industry and Resources, *Ord Expansion Project: Business Case Evaluation*, report prepared by Marsden Jacob, August 2008, p. 60.

- $15 million of land to be transferred to the MG Corporation;
- $11 million for the Ord Enhancement Scheme to address the recommendations of the Aboriginal Social and Economic Impact Assessment of Ord Stage 1.[36]

Phase One of the engineering works associated with the ORIA expansion is being managed by the Moonamang Joint Venture (MJV), which brings together Leighton Contractors and Indigenous Business Australia. MJV has created what is known as the Indigenous and Community Development Program (ICDP) which is intended to provide employment and training opportunities for local indigenous people. The ICDP is tailored to provide support for indigenous people who may not be ‘work ready’ and provides training and direct mentoring for those transitioning to the workforce for the first time. We were given examples of the type of support provided to new employees:

- Arranging and confirming identities, including birth certificates and driving licenses.
- Assisting with the payment of outstanding fines and settling outstanding legal matters.
- Establishing bank accounts.
- Alcohol and drug training, including alcohol rehabilitation.
- Providing transport to and from the worksite every day and lunches and other meals for workers on the worksite.[37]

The ICDP also includes work specific training to provide instruction on the specific jobs the new entrants to the workforce are employed to carry out.

During the construction of phase one of the ORIA expansion, indigenous employment peaked at 38 per cent of the total work force and averaged 24 per cent for the duration of construction work. Attendance rates for indigenous workers averaged 87 per cent and 68 per cent of those workers had made the transition from welfare.[38] This final statistic is particularly noteworthy, as it indicates that the ICDP has been reaching people who had previously not been active participants in the workforce or the economy of the region.

Those directly involved with managing indigenous participation in the project reported to us that it was achieving results, but all those we spoke to were aware that significant challenges remained.

In particular, indigenous workers’ home lives remained troubling. Housing remains a particular concern and it was reported to us that the lack of adequate housing is a key problem. An indigenous worker, having spent 12 hours at the ORIA expansion construction site, will often return to a home shared with as many as fifteen other people. The lack of a private space means

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36 Department of Regional Development and Lands, *Ord-East Kimberley Development Plan*, p. 15

37 Moonamang Joint Venture, *Public Forum Update: Ord Irrigation Expansion Project*, June 2011.

38 Mr Stuart Dyson, Project Director, Moonamang Joint Venture, *Briefing*, 20 July 2011.

HOUSING

Housing is a key issue in Kununurra for Aboriginal and non-Aboriginal people alike. We observed rental prices for average homes that compare to prices asked for luxury homes in inner-city areas. The Kununurra Chamber of Commerce and Industry agreed that housing costs had increased and that skilled workers were in short supply. Some 40 per cent of tenancies in Kununurra are from employees of state and commonwealth agencies. These employees' rents are subsidised and this creates challenges for local private businesses, which cannot offer the same subsidies, to attract workers.

It is, however, on the Aboriginal people that the housing burden falls heaviest. It is not simply over-crowding. Welfare recipients are able to reside in government housing, but those who make the transition from welfare to work are forced to leave the public housing system and enter the very expensive private rental market, as their incomes make them ineligible to continue receiving housing benefits. In terms of encouraging the move from welfare, the very high cost of housing in Kununurra is a massive disincentive discouraging Aboriginal people from moving from the welfare system.

that attempts by indigenous people to build their lives through work may be undermined by negative influences when they return home.

Many people we spoke to view the various problems associated with the housing situation as presenting one of the largest impediments to delivering the promises of the ORIA expansion and its associated development programs.

Another major issue affecting the community are the challenges presented by alcohol abuse. There are restrictions on the sale of alcohol in Kununurra including restrictions on the sale of alcohol at certain times of the day. We were told that the restrictions had simply had the effect of changing the times in which drinking happened, rather than reducing overall consumption or the extent of alcohol abuse in the community.[39] The alcohol-related problems are extensive and this explains why the programs developed in association with the ORIA expansion focus on alcohol.

The challenges faced by the ICDP are, perhaps, understandable given the outcomes it is attempting to achieve. The program is intended to go into communities and get people into work who have previously been passed over for other employment opportunities, usually because their capacities are deemed too low, or they are assessed as being insufficiently work ready.[40]

Although the ICDP is directly linked to the construction components of the ORIA expansion, it is intended that it become a long-term aspect of indigenous training and employment in the region.[41] To that end, management of the ICDP will be transferred to the MG Corp and integrated with the Aboriginal Development Package.[42] One example of this integration is the Wet Season Training Program which was developed in response to the cyclical nature of construction projects in the region—the long wet season means that construction projects must cease for an extended period

39 Shire of Wyndham-East Kimberley, *Briefing*, 21 July 2011.

40 Mr Stuart Dyson, Project Director, Moonamang Joint Venture, *Briefing*, 20 July 2011.

41 Moonamang Joint Venture, *Public Forum Update: Ord Irrigation Expansion Project*, June 2011.

42 Moonamang Joint Venture, *Public Forum Update: Ord Irrigation Expansion Project*, June 2011.

each year. The Wet Season Program intends to address a range of personal development and work readiness objectives for indigenous adults. The program includes the following:

- General personal development and social support, including literacy and numeracy support.
- Employment expectations training, career counselling and site visits to potential employers.
- Drug and alcohol counselling and support if needed.
- Money and household management.
- Any necessary physical or mental health assessments.
- Practical, hands-on skills and confidence development projects.
- Drivers licence preparation activities.
- Social activities and functions.[43]

One hundred local indigenous people signed up for the program and over 70 completed the course while 29 of those found employment at the conclusion of the program.[44]

Although these various programs were described as a success, they are also not without significant problems, particularly with respect to finding sustainable employment for indigenous people in the longer term. Some people raised concerns about the general applicability of the skills being developed by indigenous people through the ICDP on what is, essentially, a heavy engineering project.

The MJV is committed—at least for the life of the project—to making the investment in time, money and other resources to provide the support required to bring indigenous people into the workforce. When the project is finished and the MJV is wound-up, however, it is not clear that other employers in the region are prepared to make the same commitment. Indeed, we were told that there was a certain amount of 'employer fatigue' when it came to the employment of indigenous people. MG Corp illustrated why this might be the case when it indicated that it costs approximately $80,000 to go through the process of getting a worker ready for employment. This is being paid for out of MG Corp's own funds. Despite being committed to providing the support

43 MG Corporation, 'ADP Wet Season Training Program', Available at: www.mgcorp.com.au/index.php/news-and-projects/projects/27-adp-mg-wet-season-training-program. Accessed on 6 September 2011.

44 Mr Franklin Gaffney, Chief Executive Officer, Ms Edna O'Malley, Vice Chairperson, MG Corporation, *Briefing*, 21 July 2011.

needed to get local people work ready, MG Corp will not be able to continue this level of funding to support employment opportunities.[45]

No project can last forever and one of the issues consistently raised with us was the question of what will happen once the work supported by the various projects finishes. We return to this issue in the next section.

2.4 The longer term

(a) Will agriculture work?

Answering the question posed in the heading above is not as straight-forward as it might seem. On the one hand, the answer seems to be provided by the fact that forestry, through the expansion of the sandalwood industry, has been reducing the area of agriculture by between six and eight hundred hectares each year for the past several years. The expansion of the sandalwood industry is bound up in several factors, not the least of which are risk and the return on risk. As we noted earlier, the sugar industry withdrew from the ORIA when its returns per hectare of land fell significantly below the returns offered by other land uses. Francis Bright outlined this dilemma with respect to sandalwood leases, which he noted could, for very low risk, offer returns of between $1,000 and $1,300 per hectare each year.[46]

According to the OECD, risk in an agricultural context can include weather, market prices and disease. Although not immune to all risk, for a landowner, long-term lease agreements present a far less risky income stream than traditional farming. In part, then, the answer to whether agriculture can work in the Ord lies in finding crops that can reliably provide returns that exceed those offered by leasing arrangements with the sandalwood industry.

We take the view that the next part of the answer also lies in information provided to us by Mr Bright. He indicated that for a particular crop to be 'in the mix' in terms of its suitability for commercial farming in the ORIA, it must reliably generate more than $3,000 per hectare each year in revenue to provide sufficient margin to cover the various costs associated with growing the crop.[47] It bears repeating that the ORIA is a high cost location.[48]

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45 Mr Franklin Gaffney, Chief Executive Officer, Ms Edna O'Malley, Vice Chairperson, MG Corporation, *Briefing*, 21 July 2011.

46 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 8.

47 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 6.

48 Economics Consulting Service, *Sugar and Ethanol Production Potential: Ord River Stage II*, March 2007, p. 59.

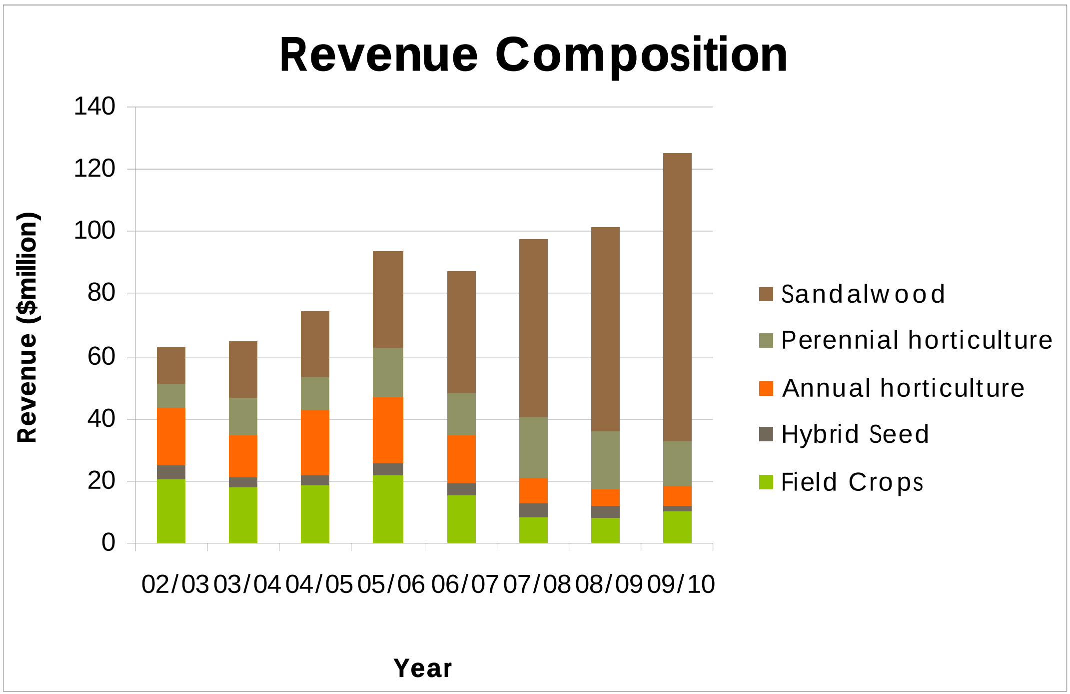

Figure 1: The (imputed value) of Sandalwood revenue has increased substantially in recent years (Source: DAFWA)

The search for a base crop

This brings us back to the search for a viable base crop, which depends on finding a crop that can reliably provide returns greater than those offered by sandalwood leases and generate more than $3,000 per hectare each year in revenue. Reliability means the crop must be pest resistant and sufficiently hardy to grow in the climate of the far north. It must also be in demand in global markets in order to insulate itself from price fluctuations. Finally, the crop must be grown in quantities large enough to support local processing, thus reducing costs associated with handling and transport. From the perspective of achieving the social outcomes identified, local processing is also critical if the local economy is to support the number of jobs needed to maximise Aboriginal employment.

As we outlined earlier, many attempts have been made to find such a crop but none have so far proven successful. It would seem, however, that the three crops that have previously been tried and failed—sugar, rice and cotton—remain the best candidates for the establishment of a viable and sustainable agricultural base for the ORIA.

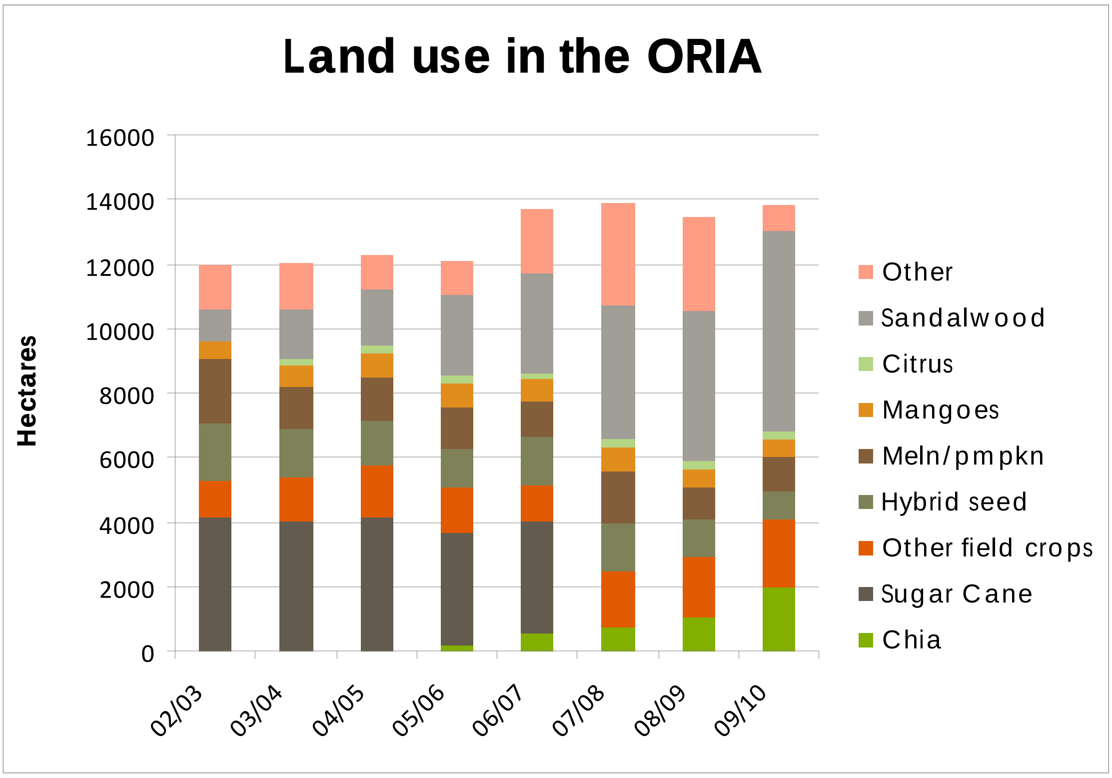

Figure 2: The changing composition of crops in the ORIA, 2002–2010 (Source DAFWA)

The economics of each of these crops is complicated, and we are not in a position to draw conclusions about the suitability of these crops on the basis of the limited information that we have received during the course of our investigation. That being said, there are some general comments that can be made about each of these crops and why they might now have a future in the ORIA, unlike in the past.

Firstly, size matters. When sugar cane was grown in the Ord it averaged a yield of 120 tonnes of cane to the hectare,[49] which is a 50 per cent greater yield per hectare than that achieved in cane growing regions in Queensland.[50] Despite the high yields, the annual production of sugar cane in the ORIA never reached sustainable levels due to the limited amount of land dedicated to cane growing. It was suggested to us that an economically viable sugar operation would need a mill that can handle at least 1.5 million tonnes of cane, which even with the ORIA's high yields would require at least 12,500 hectares of cane.[51]

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49 Economics Consulting Service, *Sugar and Ethanol Production Potential: Ord River Stage II*, March 2007, p. 36.

50 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 4.

51 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 4.

The Economics Consulting Service, in a report prepared in 2007 for the Western Australian and Northern Territory governments, highlighted the considerable uncertainty surrounding sugar production in the Ord, particularly given high costs of production, the significant capital investment required to develop a mill of sufficient capacity and the uncertain price outlook for ethanol.[52]

There is, however, a rather more straight-forward impediment to the future development of sugar in the ORIA. If sugar's viability depends on scale, then the size of the ORIA expansion does not seem large enough to deliver the land required.[53] This problem arises, essentially, from the fact that the expansion project is simply replacing land lost to sandalwood forestry in recent years.

The cotton industry was wiped out in the 1970s by pesticide-resistant insects, but cotton has made a return to the ORIA and there is small-scale growing taking place at present. The CSIRO led a ten-year study into the production of cotton in the ORIA and published its findings in 2007. It noted that the emergence of new pesticides, genetically modified cotton and changes to growing season had returned very positive results—yields in the order of 9.5 to 10.5 bales per hectare could be reliably achieved.[54]

According to Mr Bright, the economics of cotton production also appear to be quite strong.[55] Rebuilding the long-dormant cotton gin (at a cost of between $30 and $40 million) would require supply in the order of 50,000 to 75,000 bales of cotton each year. At a yield of 9.5 bales per hectare, just over 5,000 hectares of cotton would be required to produce 50,000 bales for processing—a much smaller area than that required for sugar.

International demand for cotton is strong, as reflected in the prices currently being received in international markets and modelling undertaken by the Department of Agriculture and Food in 2007 indicated that cotton production in the ORIA was viable.[56] Furthermore, cotton has multiple uses. Cotton seed left over from the bailing process can be crushed and used as a high-protein feedstock for the local cattle industry, and the oil extracted from the seed can be used to create bio-diesel.[57]

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52 Economics Consulting Service, *Sugar and Ethanol Production Potential: Ord River Stage II*, March 2007, pp. 56–57.

53 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 4

54 Cotton Research and Development Corporation, *NORpak – Ord River Irrigation Area: Cotton production and management guidelines for the Ord River Irrigation Area (ORIA)*, 2007, p. 2 & 6.

55 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 7.

56 Department of Agriculture and Food, *GM Cotton in the Ord River Irrigation Area: Discussion Paper*, July 2007, p. 22.

57 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 7.

Rice is also currently grown in the ORIA and, although it proved the most profitable crop grown in the Ord last year, it has more recently been blighted by rice blast, a fungal disease.[58] [59] It would also appear to be highly susceptible to price fluctuations and at current international prices it is not clear that rice is a sustainable crop.[60]

Sandalwood

The complexity of the sandalwood issue precludes us from giving the matter particular examination in this report, but it is worth summarising a few issues that appear to support the economic case for sandalwood. This is especially important given the rapid expansion of the industry.

When considering the suitability and viability of sandalwood in the Ord, it is critical to remember that it meets the requirement of being a high value and low volume crop and that native supplies are dwindling.[61] Although the high value of sandalwood works in its favour, it would also seem reasonable to assume that the continued popularity of sandalwood plantations in the ORIA is due, in some part, to the taxation benefits derived from their status as managed investment schemes (MIS).

It is not clear what would happen to the sandalwood industry in the ORIA if changes were made to the way in which MIS are considered for taxation purposes.[62]

The other factor to consider is the value of sandalwood production. As noted earlier, sandalwood's contribution to the total value of production in the ORIA last year was estimated at $91 million. This figure does not represent actual sales of sandalwood, rather it is an estimate of the value created during the year as the trees aged and reached maturity (and were thus closer to harvest).

In other aspects, however, it can be seen that the sandalwood industry is making valuable contributions to the local economy. Tropical Forestry Services (TFS), the largest sandalwood producer in the ORIA, is the second largest employer in the East Kimberley behind the Argyle Diamond Mine.[63] TFS has signed supply agreements with several international fragrance

58 Brann, M., 'Rice a shining light in a disastrous year for Ord Valley growers', *ABC News Online*, 3 May 2011. Available at:

59 Dyer, N., 'Farmers want response to disease', *Kimberley Echo*, 25 August 2011, p. 7.

60 Mr Francis Bright, Regional Economist, Department of Agriculture and Food, *Transcript of Evidence*, 31 August 2011, p. 7.

61 Commonwealth Scientific and Industrial Research Organisation, 'Irrigated agriculture: development opportunities and implications for northern Australia', *Northern Australia Land and Water Science Review*, October 2009, p. 10–13.

62 Department of Industry and Resources, *Ord Expansion Project: Business Case Evaluation*, report prepared by Marsden Jacob, August 2008, pp. 25–26.

63 Bell Potter, 'Tropical Forestry Services', *Company Update*, May 2011, p. 2.

companies and it has been reported that it is considering the construction of a processing facility in Kununurra.[64]

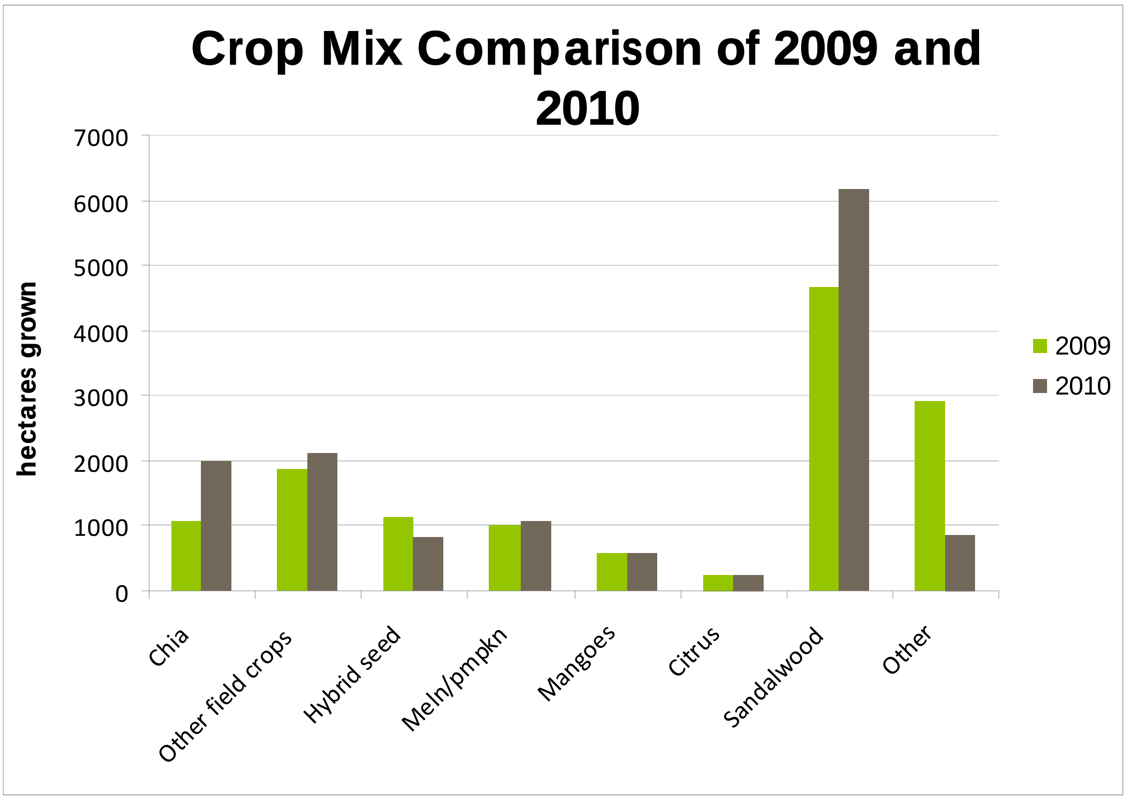

Figure 3: Sandalwood cultivation continues to increase in the ORIA, with over 1,000 hectares added between 2009 and 2010 (Source: DAFWA)

So, will it work?

It would be fair to say that agriculture in the Ord has been a very large and very lengthy experiment since it was first commenced in the early 1960s. The experiment has met with mixed results, either as a result of pests, climate or economics (or a combination of all three).

Agricultural science has not stood still, and it would seem that modern iterations of crops that previously failed have been made hardier in the face of natural challenges. The economic challenge of conducting large-scale agriculture in such a remote location may not be so easily overcome. That being said, one of the most consistent criticisms of the existing ORIA development is its lack of scale. Simply, the ORIA is too small to support the type of on-site processing needed to maximise the value of agricultural production, whether it be sugar, rice or cotton.

64 Bell Potter, 'Tropical Forestry Services', *Company Update*, May 2011, pp. 2–3.

The ORIA expansion currently taking place goes some way to addressing this flaw, but there is some evidence to suggest that the expansion is too small—that it is simply replacing land that had previously been taken by the sandalwood industry.

If the aim of the ORIA expansion is to create a viable and sustainable agricultural region, and through it a viable and sustainable local economy, the small size of the expansion may ultimately reduce the likelihood that it can survive in the long-run or make a meaningful impact on the extent of Aboriginal disadvantage in the East Kimberley.

(b) When projects finish

As we mentioned earlier, many people raised concerns with us as to what will happen once the works associated with the ORIA expansion have been completed. These concerns were raised in the context of the project running for only a limited time and with the knowledge that there is uncertainty about the possibility of follow-up work in the future.

These would appear to be legitimate concerns, although we directly observed some evidence that that the expansion may generate long-term solutions due to the creation of several indigenous businesses.

We met with two such businesses during our visit to Kununurra: Wanna Work, an indigenous contracting company, and Gerdan Cultural Tours, a bus hire and tour company. These businesses have been established with support from MG Corp through the ADP and would appear to be enjoying success. Gerdan Cultural Tours provides transportation for workers to and from the construction site and also provides tours of the works for visiting groups.

Wanna Work has conducted a range of civil works in the region, including directly in support of the ORIA expansion. Landcorp has been particularly supportive of Wanna Work and has awarded several contracts for landscaping and footpath construction in recent land releases. The company was also involved with the construction of the Garrjand Workers Village and undertook land clearing, fencing, road construction and the digging of service drains. [65]

When we spoke with Wanna Work's proprietors, Donald Chulung and Richard Beeck, they were of the view that the amount of civil work available will decrease over time and that the company would need to expand into new areas, including housing maintenance and construction. Despite future challenges, Wanna Work is enjoying success at the moment and reportedly employs more local Aboriginal people than the Moonamang Joint Venture.[66]

Despite pockets of success, significant obstacles remain for indigenous employment over the longer-term.

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65 Wanna Work, *Corporate Plan*.

66 Donald Chulung and Richard Beeck, Wanna Work, *Briefing*, 20 July 2011.

There is a view that all levels of government could do more to employ indigenous workers in local positions.[67] There are also opportunities for other government works projects in the region to do more for Aboriginal employment. The feedback we received during our visit to Kununurra was that there was an opportunity to include Aboriginal development components in government works contracts and that this was an opportunity being missed. The example of government housing maintenance was given particular mention.

In terms of the ORIA expansion's long-term impact on employment levels amongst Aboriginal people, we received reports that it was not at all clear that Aboriginal people were seeking employment in the agricultural industry. Given that agriculture has been taking place in the region for quite some time, and given that Aboriginal engagement in the industry continues to be low, the evidence would seem clear: employment in the agricultural sector does not appeal to Aboriginal people.

As a result, there are legitimate questions to ask regarding the extent of the impact that the ORIA expansion will directly have on Aboriginal unemployment.

When considering these questions we noted that MG Corp has received ownership of five per cent of the land in the ORIA expansion and that it has an option to take a further 7.5 per cent. This is some indication that attitudes of the local Aboriginal community towards agriculture might be shifting. MG Corp has formed a joint venture with TFS which will involve a combination of leasing land and direct ownership of sandalwood. There are also early proposals for an agricultural academy in Kununurra.[68] These developments, which have been made possible through the Ord Final Agreement, may indicate a shift in the attitude of the Aboriginal community towards agriculture.

It is also important to remember that the agricultural activities associated with the scheme may not ultimately directly employ a great deal of Aboriginal people but the indirect economic activity generated creates opportunities for Aboriginal employment. If the training programs currently running in conjunction with the expansion project are tailored adequately, then Aboriginal people will emerge from the programs with skills that are directly transferable—machinery maintenance; construction skills and knowledge; and heavy machinery operation.

The continued challenge for those responsible for the various training schemes associated with the ORIA expansion—and this includes the Western Australian Government—is to ensure that the training and development programs enable participants to develop skills that are relevant once the heavy engineering project is finished.

And those transferable skills can only be transferred to new jobs if a sustainable economic base—the objective of the ORIA expansion—is created in the region as a result of the ORIA expansion.

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67 Mr Franklin Gaffney, Chief Executive Officer, Ms Edna O'Malley, Vice Chairperson, MG Corporation, *Briefing*, 21 July 2011.

68 Mr Franklin Gaffney, Chief Executive Officer, Ms Edna O'Malley, Vice Chairperson, MG Corporation, *Briefing*, 21 July 2011.

2.5 Conclusion

When we looked at the ORIA expansion last year, we questioned the economics of the project but conceded that it was a project that may have been justifiable if it addressed the major social problems in the East Kimberley

Agriculture's record in the region has not been particularly good. Expanding the available irrigation area may address the unviable scale of agricultural production, but there is some evidence to suggest that the 7,700 hectare addition is not large enough to fully address the problem. This shortcoming could be rectified in the future, as the current channel extension has been designed so that the volume of water that it is capable of carrying is adequate for further stages, which would extend irrigated land into the Northern Territory.

In terms of successfully delivering the type of viable long-term economy described by the project's proponents, a base crop that supports local processing, and therefore local jobs, is absolutely essential. Until the quest for a suitable base crop is conclusively settled, the economic aims of the project will remain an open question.

We observed social programs in Kununurra delivering improved outcomes for local Aboriginal people. Those we spoke to were aware of the significant challenges still to be addressed, but they also reported to us the successes that had been enjoyed. If those successes are to be built on, then the new skills developed by local Aboriginal people will need to be employed in the community once the works associated with the expansion project have been concluded.

What was not evident was any analysis of alternative projects to provide employment opportunities for local indigenous people. We cannot judge whether or not spending $220m would have produced better results if it had been spent creating jobs in other ways, such as land management, housing construction and maintenance or human services. State agencies or state funded services are the largest employer in the region but government agencies do not have to meet aggressive targets requiring them to proactively train and recruit local indigenous people.

Long road ahead for agriculture in the Ord Valley

CHAPTER 3 COLLGAR WIND FARM

3.1 Background

Collgar Wind Farm is one of the projects selected by the Committee in its continuing interest in the planning and funding of Western Australian infrastructure projects. While the Collgar Wind Farm will be owned and operated by a private enterprise, its sole customer is Synergy, a government trading enterprise, and the lease arrangements entered into have an impact not only on Synergy's capacity to provide power to its customers, but also on the State's budget.[69]

As noted by the Committee in its November 2010 report, there are some exceptions to the requirement for government agencies to comply with the Strategic Asset Management Framework (SAMF).[70] Agencies that produce a statement of corporate intent and a strategic development plan do not need to produce Strategic Asset Plans (SAPs).

Synergy is the electricity retail corporation created under the *Electricity Corporations Act 2005* (WA). As such, it must submit a statement of corporate intent and a strategic development plan to the Minister.[71] These requirements mean that Synergy does not need to produce an SAP. However, there is a general expectation that Synergy will adopt key elements of SAMF.

3.2 The Wind Farm

Collgar Wind Farm is situated approximately 25km south east of Merredin in Western Australia. When completed, it will be the largest wind farm in the state, consisting of 111 wind turbines and having a generation capacity of 260 megawatts (MW),[72] or more than 790,000 MWh of renewable energy per annum.[73] The Collgar site was chosen by the proponents as it is 'an extraordinarily

69 This is discussed further in Section (g) on budget treatment and lease arrangements. Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 5 and p. 6.

70 Public Accounts Committee, *Inquiry into Project Planning and Funding Applications for Major Western Australian Infrastructure Projects*, Legislative Assembly, Parliament of Western Australia, Perth, November 2010, p. 22.

71 Sections 88 and 97 *Electricity Corporations Act 2005* (WA).

72 Submission No. 1 from Synergy, 7 February 2011, p. 2; Collgar Wind Farm, *Ministers Launch Collgar Wind Farm*, Press Release, 2011. Available at: http://www.collgarwindfarm.com.au/news-room/press-releases/3-ministers-launch-collgar-wind-farm. Accessed on 1 June 2011.

73 Submission No. 1 from Synergy, 7 February 2011, p. 2.

good wind resource' and will provide a capacity factor of approximately 40 per cent.[74] The estimated displacement of CO_2 emissions is between 0.87 and 0.91 tonnes per MWh.[75]

At the time of the Committee's investigation, the wind farm was still in the construction phase. In May 2011, Collgar announced the wind farm's first production of renewable energy and its export into the South West Interconnected System (SWIS).[76] At that time, more than 80 wind turbines had been erected, with the remaining 31 turbines expected to be installed by late August 2011. The Collgar proponents predicted that the wind farm was 'highly likely to be fully available during the peak summer demand months of 2011–12'.[77]

The wind farm is a joint venture between UBS International Infrastructure Fund (60%) and the Retail Employees Superannuation Trust (40%).[78]

While details of the tender process are provided below, it is important here to describe the relationship between Synergy and the Collgar Wind Farm. Under the *Electricity Corporations Act 2005* (WA), Synergy is an Electricity Retail Corporation with a primary function of supplying electricity to consumers. It is prevented from generating electricity and must purchase the energy it needs to supply its customers. It does this through acquiring 'power purchase arrangements' with generators.[79] Synergy has entered into a number of these long-term bilateral contracts with renewable energy generators in the Western Electricity Market (WEM), including a supply agreement with Collgar Wind Farm.[80] The following provides a brief outline of the rationale for that supply agreement and the process undertaken by Synergy to select Collgar Wind Farm as a renewable energy supplier.

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74 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 3. The capacity factor is the average amount of energy produced throughout the entire year. It is calculated as a proportion of the amount that would be generated if it maintained its maximum capacity for the entire 12 months of a year. See transcript p. 3.

75 Submission No. 2 from Synergy, 30 March 2011, Attachment 1, pp. 1–2. This states displacement as 0.87 or 0.91 kg per KW hour.

76 Collgar Wind Farm, *Collgar Wind Farm Commences Export of Renewable Energy*, Press Release, 14 May 2011. Available at: http://www.collgarwindfarm.com.au/news-room/press-releases/3-ministers-launch-collgar-wind-farm. Accessed on 1 June 2011.

77 Collgar Wind Farm, *Collgar Wind Farm Commences Export of Renewable Energy*, Press Release, 14 May 2011. Available at: http://www.collgarwindfarm.com.au/news-room/press-releases/3-ministers-launch-collgar-wind-farm. Accessed on 1 June 2011.

78 Collgar Wind Farm, *Ministers Launch Collgar Wind Farm*, Press Release, 2011. Available at: http://www.collgarwindfarm.com.au/news-room/press-releases/3-ministers-launch-collgar-wind-farm. Accessed on 1 June 2011.

79 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 2.

80 Submission No. 1 from Synergy, 7 February 2011, p. 3. Other agreements have been entered into with Emu Downs Wind Farm, WA Biomass, Waste Gas Resources and Mt Barker Community Wind Farm. See also: Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 3 and p.10. Mr Mitchell advised that Synergy is also supporting wave energy and geothermal projects.

3.3 The Need for Renewable Energy Supply

In procuring energy for its customers, Synergy has to also meet both its obligations to the federal government's renewable energy target requirements and its commitments to its GreenPower customers.[81] Energy suppliers purchase renewable energy from accredited GreenPower sources to sell to its GreenPower consumers, both domestic and business.[82]

While meeting its commitments to GreenPower customers is important, reaching the federal government's renewable energy targets places a much larger obligation on Synergy.[83] In 2001, the federal government requirement for renewable energy was 2.16 per cent of supply. In 2007, this requirement increased significantly to stand at approximately 20 per cent.[84] If Synergy fails to meet the federal renewable energy it will incur a penalty.[85]

Given the increase in federal requirements and the continued economic growth in Western Australia, it is reasonable to suggest that there is a gap between power currently being generated for supply and future power need, particularly over the longer term.

In addition to this, Synergy was required by legislation and Ministerial Direction 'to conduct tenders for progressive displacement of the initial vested arrangements with Verve Energy'[86]. Given this, when considering options to allow it to meet its federal government obligations and customer commitments, Synergy decided to combine its renewable energy needs procurement with this progressive displacement tender.[87] In effect, this meant that Synergy's 2008 wholesale supply procurement programme aimed to procure 'Capacity Credits …, associated electricity and environmental rights to meet Synergy's portfolio needs, including the displacement of volumes stipulated in the Vesting Contract'.[88]

To fill these needs, Synergy is investigating and supporting a number of options in renewable energy, including wave, geothermal, landfill gas, solar and biomass energy generation.[89]

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81 Submission No. 1 from Synergy, 7 February 2011, p. 2.

82 Building WA, 'GreenPower for Your Home', nd. Available at: http://www.buildingwa.com.au/Environment/GreenPower-For-Your-Home/. Accessed on 1 June 2011.

83 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 4.

84 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 3.

85 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 4.

86 Submission No. 1 from Synergy, 7 February 2011, p. 2.

87 Submission No. 1 from Synergy, 7 February 2011, p. 2.

88 Submission No. 2 from Synergy, 30 March 2011, Attachment 1, p. 1.

89 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 10.

3.4 Procurement Process

Due to the tender requirements for the displacement of Synergy's vesting contract with Verve and the increasing need for renewable energy, each year Synergy seeks 'expressions of interest from the market as to what we [Synergy] can get from the market. … If the policy is that we need to have 20 per cent renewables, we go out and seek 20 per cent renewables from wherever we can'.[90]

According to Synergy, it required a streamlined procurement process that sought:

- 'to engage known potential suppliers in the procurement process to allow available existing and new capacity to participate in the process'; and
- 'expressions of interest from potential suppliers, demonstrating their financial and other capabilities to provide Capacity Credits, electricity and/or environmental rights'.[91]

Synergy anticipated a 'progressive appointment of preferred tenderer(s)', beginning in August 2008 for the 2010–11 Capacity Year, with all appointments from this process to be finalised by the fourth quarter of 2008.[92]

The timeline for the procurement process was as follows:[93]

2007:	Expression of Interest (EOI) Issued
March 2008:	EOI Lodgement
April 2008:	Selected respondents invited to enter into a Request for Tender Agreement
June 2008:	Tenders Closed
July to September 2008:	Tender Assessment Process
September 2008:	Board approved selection of Invest Bank (Australia) as preferred tenderer for renewable energy supply from Collgar Wind Farm
October 2008:	Lodgement of application for ministerial approval to the Minister for Energy

90 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 4.

91 Submission No. 2 from Synergy, 30 March 2011, Attachment 1, p. 2.

92 Submission No. 2 from Synergy, 30 March 2011, Attachment 1, p. 2.

93 This time line is based on information provided at hearing and the anticipated timeframe as detailed in Synergy's EOI documents. See Submission No. 2 from Synergy, 30 March 2011, Attachment 1.

November 2008:	Ministerial approval granted
Unknown date:	Negotiations/discussions with tenderer to enable contract to be developed
Unknown date:	Additional information in relation to impact of global financial crisis on financing the project. Information exchanged between Synergy, the Office of Energy and the Department of Treasury and Finance.
March 2010:	Ministerial approval granted
April 2010:	Contract entered into for the supply of renewable energy from Collgar Wind Farm

According to Synergy, the EOI:

> *was a general indication of what Synergy's energy capacity, energy and environmental rights—sorry, renewable energy certificates—what our requirements were over a period of time. The expressions of interest were giving potential and actual independent power producers, those that already had plant available or were active in the market already, and others that wished to come into our market, because clearly as part of the energy reform process we were trying to bring other players into the generation sector of the state.*[94]

(a) Project Scope

As noted above, Synergy goes to the market to obtain the amount of renewable energy it needs to deliver federal government requirements and meet GreenPower customer demand. Synergy's EOI documentation notes its requirement to source at least 200 MW of Capacity Credits and sufficient renewable energy supplies to meet portfolio requirements. The EOI states that Synergy 'intends to procure a significant proportion of these overall requirements from renewable sources'.[95] Therefore, tenderers could offer:

- part of the required displacement as per the Vesting Contract;
- displacement of Capacity Credits from renewable energy sources; and/or
- Capacity Credits, electricity and/or environmental rights[96]

This meant that the scope of the project, including the type of energy generation and project location, was determined through the tender process.[97] As Mr Trevor Harvey, Synergy's Acting Head of Wholesale, explained:

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94 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 2.

95 Submission No. 2 from Synergy, 30 March 2011, Attachment 1, p. 2.

96 Submission No. 2 from Synergy, 30 March 2011, Attachment 1, p. 2.

> *each tenderer was permitted to offer whatever they felt they could best offer to contribute to meeting our needs. We did not specify where any of the wind farms or any of the other generators that were being offered to us should be. That wind farm location [Collgar] was chosen by Investec Bank Australia as the tenderer, at some stage pre putting the tender into us. That was a wind farm site that they had done some prior work to in order to prepare to be able to build a wind farm there should they be successful in tendering to us or supplying to somebody else.*[98]

3.5 Assessment of Tenders

EOIs were received from 14 potential suppliers. Of these, 12 were invited to submit a tender. Subsequently, 8 tender proposals were received from 6 potential suppliers.[99]

Synergy's tender documents advised that the company's overall objective for this procurement was to:

- Minimise the risk-adjusted cost to Synergy of Capacity Credits, associated electricity and/or environmental rights to be provided; and
- Maximise the value and competitiveness of Synergy's supply portfolio.

Key aspects of the assessment process for each tender included:

- Scenario based assessment, incorporating external factors including cost of carbon;
- Assessment of the 'impact on Synergy of the supply term of each tender', with a shorter supply term being preferable;
- Assessment of the impact on Synergy 'of the quantum of Capacity Credits and associated electricity offered;
- Risk assessment, including the extent of risk mitigation by the tenderer and the risk to be borne by Synergy; and
- Impact assessment of the costs to Synergy that arise in the Western Electricity Market as a result of the tender project.[100]

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97 Submission No. 1 from Synergy, 8 February 2011, p. 3.

98 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 8.

99 Submission No. 1 from Synergy, 8 February 2011, p. 3.

100 Submission No. 2 from Synergy, 30 March 2011, Attachment 1, pp. 8-9.

3.6 Synergy's Power Supply Agreement with Collgar Wind Farm

According to Mr James Mitchell, Synergy's Managing Director, all decisions in relation to tender selection must, by legislation, be 'based on commercial rationale' and therefore must be commercially viable'.[101] Evaluation of projects involves costs-benefit analysis centred on the question: 'which is the best opportunity?'[102] Given that the project scope is determined by the tender process and that the tender does not specify the type of energy generation required, Synergy 'ultimately accept responses from the private sector and Verve and basically do an economic assessment on that'.[103]

The power supply agreement between Synergy and Collgar Wind Farm is a confidential commercial document, and the Committee has undertaken to maintain its commercial-in-confidence status. Nevertheless, some details of the agreement are in the public domain. Under the 15 year agreement, all power generated is made available to Synergy, with Synergy having the option on any residual energy generated above the 206 MW built capacity.[104] As Mr Harvey explained:

> *We are the sole customer. As that renewable energy is generated and made available, we pay for what is generated, what we receive. It is our obligation to pay for the renewable energy that we receive. The wind farm owner-operator has some minimum obligations. They must make available to us everything that is generated, but there is a level of output that they have undertaken to provide to us—not in every trading interval, but on a year-by-year basis there is a minimum amount that they need to provide, and there are mechanisms in the contract for that to be made good, if you like.*[105]

The agreement is also structured so that the cost to Synergy for all the energy supplied from Collgar Wind Farm is a flat rate 'per "megawatt hour generated"', with only adjustment for quarterly CPI over the life of the agreement permitted.[106]

Based on these arrangements, and as Mr Mitchell states, Synergy 'will be transferring significant risk to the private sector'.[107] The owner-operators of Collgar Wind Farm bear the risks associated with financing the project, the capital risk, the cost of, and problems associated with, connecting to Western Power's network, and the risk of shortfalls in supply from the farm. While these risks and costs are borne by the private sector, they are factored into the cost structure of the price per

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101 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 3.

102 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 10.

103 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 8.

104 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 5; and Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 5.

105 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 5.

106 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 8.

107 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 9.

unit of energy charged to Synergy. In this way, Collgar Wind Farm recovers its costs from Synergy.[108]

3.7 State Budget Treatment

Over the 15-year life of the agreement Synergy expects to pay $1.5 billion.[109]

The original budget treatment of the lease by the Department of Treasury and Finance was as a finance lease. However, the 2010–11 Budget Papers showed a $500 million reversal as the lease is now deemed to be an operating lease. According to Mr Harvey:

> *That is the way that the accounting standards treat it. What changed was only the opinion that we received subsequently … from an independent accounting firm to indicate that the nature of the arrangement was such that under the accounting standards it was treated as an operating lease rather than a finance lease. That is all to do with the minimum obligations to pay that we have in the contract … that minimum obligation is well below any of the thresholds that would apply under the accounting standards to treat it as a finance lease*.[110]

It was following this independent advice from one of the 'big four' accounting firms, which was supported by the Auditor General, that the lease was changed from a finance lease to an operating lease.[111] This was the accounting treatment deemed appropriate and this advice was provided to the government through the Office of Energy, the Department of Treasury and Finance and the minister's office.[112]

It is worth noting that this accounting treatment resulted in the removal of $500 million from the net state debt.

108 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 5.

109 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 7.

110 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 6.

111 Mr James Mitchell, Managing Director, Synergy, *Transcript of Evidence*, 16 March 2011, p. 6 and p. 7.

112 Mr Trevor Harvey, Acting Head of Wholesale, Synergy, *Transcript of Evidence*, 16 March 2011, p. 7.

CHAPTER 4 THE PERTH WATERFRONT REDEVELOPMENT

4.1 The project

The Perth Waterfront Redevelopment is the project name given to the redevelopment of a ten hectare parcel of land along the northern bank of the Swan River adjacent to the Perth central business district. The project master plan has identified potential land uses including the provision of 150,000m^2 of office space and the creation of 39,000m^2 of new retail space. There is also provision in the project master plan for 1,700 new apartments and new hotels and serviced apartments.

A key centrepiece of the redevelopment is a proposed indigenous cultural centre and conceptual renderings of the master plan have included a cable car running from the foreshore to Kings Park. Neither of these two developments is included in current funding for the project.

The project can best be described as a land development, with the state government funding the provision of the necessary infrastructure to allow for the commercial and retail developments to occur. The state government will fund the cost of public infrastructure, such as the new inlet, walkways and bridges and other public open spaces in order to facilitate the desired social outcomes, namely the activation of Perth's waterfront and the creation of a connection between the city and the river.

Project budget

The total cost of the public infrastructure works is estimated at $440 million. Revenue from land sales is estimated in the range of $170 million, leaving a net cost to the government of $270 million. Earlier project estimates held this figure to be anywhere between $255–$300 million.

The estimated total cost of the development is $2.6 billion. Most of this cost will be borne by the private sector, as it will be responsible for delivering the commercial and retail developments conceptualised in the master plan. [113]

The Committee requested access to specific break-downs of the anticipated project costs and was refused access on the grounds that release of the information might jeopardise the competitive tendering process.[114]

A priority of government

The government publicly committed to proceeding with the Perth Waterfront Redevelopment in June 2009. In a media release, the Premier was quoted as saying that the 'final design work is yet

113 Submission No. 2 from Department of Planning, 7 April 2011, p. 1.

114 Submission No. 2 from Department of Planning, 7 April 2011, p. 1.

to be done, but by releasing this concept within just nine months of Government, we are showing our commitment to the development of our foreshore'.[115]

This notion of the project as a priority of government was reinforced by the project director, Mr Glen Finn, during his appearance before the Committee. Mr Finn noted that the waterfront had not, at that time, been included in the WA Planning Commission's Strategic Asset Management Framework (SAMF) process because the project was a 'priority of government'. That being said, the project would be included on the agency's SAMF as it moved forward.[116]

In its major infrastructure report tabled in November 2010, the Committee noted the importance of ensuring that 'fast-tracked projects' (the terminology used by the Committee to describe projects selected as priorities of government) be subject to SAMF processes to the greatest extent possible.[117]

4.2 Why the Strategic Asset Management Framework matters

SAMF is a framework that provides for the application of a set of principles that should guide the development of new infrastructure projects. As the Committee noted in its major report in 2010, properly applied, SAMF should enable governments to minimise three key risks associated with delivering infrastructure:

- Firstly, that a project will be delivered late or over budget;
- Secondly, that a project will not appropriately meet the service delivery needs that it is intended to provide; and
- Thirdly, that the project may be under-utilised.

SAMF allows these risks to be minimised because the policies require consistent and thorough application of scrutiny to the project at each of the decision stages. Service delivery needs and gaps must be identified and quantified, options for responding to the needs must be considered and tested, and projects should be fully scoped and costed to minimise the likelihood that, once underway, shortcomings with plans require changes to scope and significant increases in cost.

The Committee noted that arising from each of the risks outlined above there was a danger that value for money outcomes would be compromised,[118] and that public confidence and support for

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115 Barnett, C, (Premier of Western Australia), *Government commits to Perth waterfront*, Media Statement, Government of Western Australia, Perth, 24 June 2009.

116 Mr Glen Finn, Project Director, Department of planning, *Transcript of Evidence*, 23 March 2011, p. 2.

117 Public Accounts Committee, *Inquiry into project planning and funding applications for major Western Australian infrastructure projects*, Perth, November 2010, pp. 76–77.

118 Public Accounts Committee, *Inquiry into project planning and funding applications for major Western Australian infrastructure projects*, Perth, November 2010, p. 161.

projects would be undermined.[119] Public cynicism is arguably heightened when public money is spent on what might best be described as 'optional' projects and where the need for the project is not immediately obvious. Construction of a $500 million hospital is less controversial than the construction a $500 million inner-city redevelopment because the need for healthy communities is usually immediately apparent, whereas the need for an activated inner-city is not.

Vision—even when it is backed by strong political commitment—is therefore not enough. SAMF requires more from project proponents

4.3 How SAMF is being applied

Need

The Committee noted that the proper identification of need is key to the overall success of a project and quoted approvingly from the Works Reform Business Solution Plan, which noted that there had been in Western Australia a 'lack of real data to support need for many proposed capital works projects and failure to articulate the objective of the project'.[120]

In a submission to the Committee, the Department of Planning, citing the *Directions 31 and Beyond* planning document, noted that the requirement 'to provide capacity within the central business district to accommodate office, commercial, residential and retail demand associated with forecast growth in the metropolitan population' underpinned the need for the redevelopment project.[121] More generally, the Department also noted the following as needs addressed by the project:

- ensuring that Perth remained a contemporary, liveable and globally competitive city; and
- re-establishing the connection between the city centre and the Swan River foreshore.[122]

The Department continued that *Directions 31 and Beyond* identified the waterfront as a 'metropolitan attractor' which would serve as a highly valued area and that would be visited by local and regional residents.[123] Crucially, the Department also noted that a number of plans for the waterfront had been released in the preceding 30 years and this had given rise to an expectation from the community that the area would be developed.

An apparent contradiction regarding the commitment to proceed with the project before its need had been conclusively established—*Directions 31 and Beyond* was released in August 2010 and

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119 Public Accounts Committee, *Inquiry into project planning and funding applications for major Western Australian infrastructure projects*, Perth, November 2010, pp. 81–82.

120 Public Accounts Committee, *Inquiry into project planning and funding applications for major Western Australian infrastructure projects*, Perth, November 2010, p. 39.

121 Submission No. 2 from Department of Planning, 7 February 2011, p. 1.

122 Submission No. 2 from Department of Planning, 7 February 2011, p. 1.

123 Submission No. 2 from Department of Planning, 7 February 2011, p. 1.

the government committed to the project in June 2009—is probably explained by the fact that the project was a priority of government.

The Committee acknowledged in its major report, the need for projects such as these can be difficult to quantify to the full satisfaction of SAMF and there can be little doubt as to the credibility of the needs already identified. The Committee agrees that Perth's foreshore—potentially its best asset—is under-utilised; its city centre will need to grow to meet demand from commercial and residential tenants; and other, globally significant cities, have developed lively and vibrant waterfronts that have greatly contributed to the amenity and appeal of these cities. What does require close scrutiny, however, is the extent to which the waterfront redevelopment as currently proposed reflects the best option to meet these needs.

Consideration of options

SAMF requires that agencies give consideration to how the needs identified at earlier stages of the project definition process can best be met. This includes consideration of what is known as the 'do nothing option', which is to say that agencies are required to consider what the outcome would be should they fail to go ahead with the project.

The Department of Planning advised the Committee that it had not undertaken a study of the 'do nothing' option as, when responsibility for the project was transferred to the Department, there had been a clear signal from the government that the project was to go ahead.[124]

In addition to considering the do nothing option, agencies are required to consider a number of different options in order to ascertain the best response to the identified need. In the case of the Perth Waterfront Redevelopment, the previous state government released concept plans in 2008 that provided for development of the Mounts Bay foreshore to the Narrows Interchange. The Department provided the following summary of the differences between the former government's proposal and the current government's:

Project Element	2008 Plan	Current Plan
Total Project Area	28.8 ha	10.0 ha
Total Public Open Space (including inlet)	17.3 ha	6.4 ha
Total Development Area	11.5 ha	3.6 ha
Office/Commercial	363,000m^2	150,000m^2
Retail	63,000m^2	39,000m^2
Residential	3,060 apartments	1,700 apartments
Hotel	1,400 rooms	300+ rooms

Obviously the current iteration of the redevelopment represents a more modest proposal with significantly reduced numbers of apartments and hotel rooms and a significant reduction in the overall size of the commercial and retail developments. The Committee asked the Department

124 Mr Glen Finn, Department of Planning, Letter, 3 August 2011, p. 1.

what consideration was given to how the changes would impact upon the extent to which the project responds to the project's identified needs and was told that 'the current plan has been designed to a set of objectives specific to this project'.[125]

A more useful insight was provided in the Department's initial submission, which noted that 'the current project area represents a more achievable outcome in terms of site and economic conditions and community expectations'.[126]

The reduced size represents less potential risk for the government, particularly the risk that the project will be under-utilised due to the creation of excessive amounts of new office space. In reducing the size of the project, however, some might take the view that waterfront is not being fully utilised or activated.

Concept definition

The redevelopment project is being managed in six phases. The first two phases related to the development of a master plan and preliminary business case, and the establishment of preliminary designs, technical investigations and feasibility analysis. The third phase commenced in December 2010 and is scheduled for completion in February 2012, after which construction will commence.[127] Based on the available evidence it seems that the concept has now been finalised and that changes to scope or design will not occur once construction has commenced.

Analysing impacts on traffic and pedestrian movements, and generating suitable responses, are rightly components of the project definition process. The Committee asked the Department what consideration had been given to the impact of the redevelopment on traffic movement in the city, and also examined expected impacts on pedestrian and public transport movements. Although modelling has taken place, the Committee was unable to receive a copy of the modelling report as it had not been completed at the time.[128] Nonetheless, the Committee was informed that 15,000 vehicles per day were expected to use Riverside Drive following the modifications undertaken as part of the waterfront redevelopment. This figure is down from the 25,000–30,000 vehicles per day which use the road at present. The traffic 'lost' from Riverside Drive will be diverted to the city's other east-west routes, primarily St Georges Terrace and the Graham Farmer Freeway.[129]

In terms of pedestrian movements, Mr Finn informed the Committee that one of the key outcomes for the project is to encourage movement at ground level from the city centre to the foreshore. He

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125 Mr Glen Finn, Department of Planning, Letter, 3 August 2011, p. 2.

126 Submission No. 2 from Department of Planning, 7 February 2011, p. 2.

127 Department of Planning, 'Project Delivery', 7 July 2011. Available at: http://www.planning.wa.gov.au/1270.asp. Accessed on 13 September 2011.

128 Submission No. 2 from Department of Planning, 7 April 2011, p. 2.

129 Mr Glen Finn, Project Director, Department of planning, *Transcript of Evidence*, 23 March 2011, p. 11.

also reported that the master plan includes a number of opportunities for pedestrians to safely travel to the foreshore area.[130]

Project delivery

As noted earlier, delivery of the project is being overseen by the Western Australian Planning Commission through the Department of Planning. The Committee raised this as an issue during its hearing with the Department, and took the view that major construction and land development projects would more properly be the domain of the East Perth Redevelopment Authority or LandCorp. In response, the project director noted that, ultimately, responsibility for the project will be transferred to the Metropolitan Redevelopment Authority once it is established.[131]

The project is being delivered under a Government Master Developer contracting model wherein the government develops the land and delivers the key public infrastructure associated with the development. This includes the creation of the inlet, the construction of other public areas, roads and other services and infrastructure.[132]

At the time of the Committee’s hearing with the Department, there had been no decision made as to whether land would be sold freehold or leased to the private sector.

The two key public attractions for the redevelopment have not been funded at present. Work has been undertaken on costing the cable car and this is estimated to cost in the order of $35 million. Once constructed, operation of the cable car will be handed to the private sector through a leasing arrangement.[133] At the time of the Committee’s hearing, only preliminary design work had been undertaken on the Indigenous Cultural Centre. [134] Currently, funding has not been made available for either of these projects.

4.4 Concluding remarks

This is a large and complex project making major changes to the structure and working of the Perth CBD. If we get it wrong, in any one of several significant aspects, then the benefits to the city, its liveability and efficient functioning could be severely impaired. The lack of transparency and engagement with the community does not give confidence that the planning is to the standard required by the SAMF processes.

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130 Mr Glen Finn, Project Director, Department of planning, *Transcript of Evidence*, 23 March 2011, p. 10.

131 Mr Glen Finn, Project Director, Department of planning, *Transcript of Evidence*, 23 March 2011, p. 2.

132 Mr Glen Finn, Project Director, Department of planning, *Transcript of Evidence*, 23 March 2011, p. 4.

133 Mr Glen Finn, Project Director, Department of planning, *Transcript of Evidence*, 23 March 2011, p. 9.

134 Mr Glen Finn, Project Director, Department of planning, *Transcript of Evidence*, 23 March 2011, p. 9.

CHAPTER 5 PERTH CITY LINK

5.1 Background

The Perth Link Project (PCL) is an initiative currently underway to sink both the Fremantle Rail Line on its final approach into the Perth Train Station and the adjacent Wellington Street Bus Station (WSBS). This will release both the land upon which the WSBS stands and upon which the railway line currently runs—together with adjoining under-utilised land—for urban renewal, and connect the Central Business District (CBD) with Northbridge for the first time in more than 100 years. Removing the barrier created by the public transport infrastructure will enable more commercial and residential development north of the city, particularly along Roe Street moving to central Northbridge.

The project is also expected to result in other benefits including the generation of additional revenue from the new properties on the site; additional revenue generated in the periphery due to 'value uplift';[135] and greater use of public transport.[136] Additional details as to the full cost and delivery implications of sinking the railway line and the bus station are covered below.

Last year, the Public Accounts Committee examined the PCL project and highlighted that the transport related elements of the project would cost a total of $609.3 million rather than the originally estimated $468 million.[137] The Committee also noted that the very first version of the project, as submitted by the Premier to the Commonwealth Government in October 2008, was costed at $263 million. This cost was only for the sinking of the railway line and did not include the sinking of the bus station, which was expected to cost $205 million. Ultimately, the Commonwealth Government decided to fund both the rail and bus components on an expected total cost of $468 million.

The Committee reported that the Commonwealth's contribution was fixed at the original 50:50 split amount of $236 million ($236 million is slightly more than half of the then projected total cost of $468 million). It was noted that the combination of the project's increased cost and the Commonwealth's fixed contribution meant that the state government would be required to pay significantly more than the initially projected $236 million.

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135 Mr Ryan Keys, Acting Chief Executive Officer, East Perth Redevelopment Authority, *Letter*, 17 August 2011.

136 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Letter*, 16 August 2011.

137 Public Accounts Committee, *Inquiry into Project Planning and Funding Applications for Major Western Australia Infrastructure Projects*, Legislative Assembly, Perth, 18 November 2010, p.13.

In addition, the land development costs of the project also need to be taken into consideration. The 2010–11 State Budget allocated $47 million for the subdivision works associated with the project, but this figure has since increased to $128.1 million.[138]

Given the uncertainty surrounding the total cost of the project, the Committee resolved to re-examine the project.

5.2 Current costs

In its major report last year, the Committee principally focused on the costs associated with the public transport elements of the project. Very little attention was paid to the land development costs, which are the responsibility of the East Perth Redevelopment Authority (EPRA). In order to gain clarity on the full extent of costs associated with the PCL project, the Committee asked both the Public Transport Authority (PTA) and EPRA to provide updated figures. A summary of the figures is provided below:

Public Transport Costs (Public Transport Authority budget items)[139]	
Element	**Cost**
Wellington Street Bus Station	$248.95 m
Rail Components	$360.32 m
TOTAL	$609.27 m

Land Development Costs (East Perth Redevelopment Authority budget items)[140]	
Element	**Cost**
City Square	$73.1 m
Other subdivision expenses	$55.0 m
TOTAL	$128.1 m

Total cost of the Perth City Link project	
Element	**Cost**
Land Development Costs	$128.1 m
Public Transport Costs	$609.27 m
TOTAL	$737.37 m

As the tables above demonstrate, there has been no movement in the projected total cost of the public transport elements of the PCL since the 2010–11 State Budget.[141] The same, however,

138 Department of Treasury, *Western Australian 2011–12 State Budget*, p. 567; and Department of Treasury, *Western Australian 2010–11 State Budget*, p. 554.

139 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 2.

140 Mr Ryan Keys, Acting Chief Executive Officer, East Perth Redevelopment Authority, *Transcript of Evidence*, 28 July 2011, p. 13.

141 Department of Treasury, *Western Australian 2011–12 State Budget*, p. 446.

cannot be said for the land development costs, which have increased by $81 million since the 2010–11 budget.[142]

A breakdown of the funding sources for the public transport elements is provided below:

Public Transport Funding Sources[143]	
Source	**Amount**
City of Perth[144]	$36.85 m
Commonwealth Government	$236 m
State Government	$336.42 m
TOTAL	$609.27 m

In its major report in 2010, the Committee concluded that one of the key benefits to be realised through the rigorous application of the Strategic Asset Management Framework (SAMF) was the reduction of the risk that a project would be delivered late or—importantly in the context of the PCL—over budget. SAMF helps to minimise this risk by ensuring that agencies have a solid understanding of the scope of projects prior to approval being given for the project to proceed.

Given the cost increases associated with both the land development and public transport elements of the projects, the Committee asked both EPRA and the PTA to identify both where the increases occurred and the reasons for the increases.

5.3 Scope changes result in cost increases

Public Transport Authority

Mr Reece Waldock, the PTA Chief Executive Officer, provided the Committee with a break-down of the figures used in the original submission for funding for the public transport elements of the project.[145] These are reproduced below and the current costs are included for comparison purposes:

Public Transport Costs (Public Transport Authority budget items)		
Element	**Initial Costs**	**Current Costs**
Wellington Street Bus Station	$205.00 m	$248.95 m
Rail Components	$263.00 m	$360.32 m
TOTAL	$468.00 m	$609.27 m

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142 Department of Treasury, *Western Australian 2011–12 State Budget*, p. 567; and Department of Treasury, *Western Australian 2010–11 State Budget*, p. 554.

143 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 2.

144 Payment of the City of Perth's contribution is in two parts. The first, a payment of $25.6 million, was made in April 2011. The second, a payment of approximately $12 million, will occur some time in 2012 or 2013.

145 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 3.

Mr Waldock explained that initial cost estimates for the sinking of the rail line were based on work completed in 2006 as part of the New MetroRail project.[146] More generally, Mr Waldock outlined that the initial costs identified in both 2008 and 2009 were 'very premature' particularly with respect to both costing and the identification of the scope of the project. Indeed, Mr Waldock emphasised that there are 'significant differences in scope' between the project as it was initially submitted for funding and the project that is currently under construction.[147] It was only in March 2010 that the final scope was arrived at.[148]

Unfortunately, the Commonwealth's funding contribution is capped to 50 per cent of the cost of the initial, inadequately scoped and costed, submission.

In terms of the major changes in scope to the project, the following five alterations were highlighted by the PTA at hearing:

- The addition of a new platform on the Roe Street side of the Perth Train Station. The platform was added to the project scope in recognition that more capacity would be required at the station than was initially identified.[149]

- The construction of additional track on the north side of the station to accommodate the new platform. This will require extensive engineering works on the Barrack Street Bridge, in addition to alteration of an existing child care centre.[150]

- The construction of a new pedestrian underpass allowing the complete integration of the underground station with the Perth Train Station.[151]

- The expansion of the underground bus station from 12 bays to 16 and an increase in the length of the bus tunnel and the number of bus layovers. This expansion was justified on the grounds of allowing for 'sensible future growth'.[152]

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146 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 3.

147 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 3.

148 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 3.

149 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 4.

150 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 4.

151 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, pp. 4–5.

152 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 5.

- Increasing the engineering strength of the underground components to allow for buildings of up to 30 storeys to be constructed overhead.[153]

East Perth Redevelopment Authority

Mr Ryan Keys, the Acting Chief Executive Officer of EPRA, provided the Committee with a break down of cost increases associated with the land development aspects of the PCL project:

Land Development Costs (East Perth Redevelopment Authority budget items)		
Element	**Initial Costs (2010–11 budget)[154]**	**Current Costs**
City Square	$0 m	$73.1 m
Other subdivision expenses	$47.0 m	$55.0 m
TOTAL	$47.0 m	$128.1 m

Mr Keys reported that the significant increase in the cost of EPRA's component of the project was mostly a result of the decision to have the state government deliver the City Square project, rather than a private sector developer.[155]

The impact of changing scope

It would be fair to say that much of the cost increase associated with the PCL project derives either from refinement of scope or to outright changes to it. Mr Waldock's admission that the initial submission to Infrastructure Australia was made using scoping and costing estimates that were 'very premature' suggests that the project was probably not ready for consideration for funding when it was submitted to Infrastructure Australia in both 2008 and 2009.

5.4 Cost-benefit analyses

In its major report, the Committee noted that the Australian National Audit Office had found the PCL project as 'having a *Basic* profile with a *Strong* BCR [benefit-cost ratio], but the Office of the Infrastructure Coordinator noted the BCR was "based entirely on unconventional benefits"'.[156] This gave rise to concerns about the robustness of the claimed BCR and led the Infrastructure Coordinator to 'conclude that the project needed to be re-analysed using a conventional economic framework'.[157]

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153 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 5.

154 As contained in the 2010–11 State Budget. At hearing, Mr Keys noted that the 'whole life of the project' was in the May 2010 budget, Mr Ryan Keys, Acting Chief Executive Officer, East Perth Redevelopment Authority, *Transcript of Evidence*, 28 July 2011, p. 13.

155 Mr Ryan Keys, Acting Chief Executive Officer, East Perth Redevelopment Authority, *Transcript of Evidence*, 28 July 2011, p. 13.

156 Auditor General, Australian National Audit Office, *Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List*, Audit Report No.2 2010–11 Performance Audit, Commonwealth of Australia, Canberra, 2010, p. 96 and pp. 108–109.

157 ibid., p. 114.

The Committee requested that updated figures be provided outlining expected costs and benefits.

Land revenue generation

An analysis conducted for EPRA by Pracsys, an economics consulting firm, focuses on potential revenue streams directly attributable to the project. The analysis anticipates that there will be a significant 'value uplift' resulting from the project on surrounding properties. These value increments will flow through into greater Government revenues based on rents and transactions values in the peripheral areas.[158]

The City of Perth is expected to similarly benefit from the value uplift, which is estimated to be 50 per cent, based on the relatively low historical value of properties along Roe and Wellington Streets in particular. A total additional $9.75 million of municipal rates is expected to be collected annually, compared to the 'negligible' rates currently being collected.[159]

The value of stamp duty estimated to accrue from the Link site is $151 million associated with the initial sale of land and subsequent sale of residential, commercial and retail buildings. The estimated stamp duty revenue from the sale and redevelopment of the periphery is $48.5 million. Revenue from car parking levies is expected to generate approximately $800,000 in revenue for the state government.[160]

EPRA concludes that an analysis of government revenue impacts associated with the Link development show a positive return for the government on its initial investment. Given the near nil revenue associated with the site before development started, the revenue impacts associated with the development are described in the modelling as 'compelling'. [161]

Transport revenue generation

As a result of improved accessibility, the PTA has estimated that the public transport system will attract an additional 600 users per week day, or 1,200 trips daily trips. This is anticipated to generate additional fare revenue of up to $1 million per annum.[162]

Furthermore, it is anticipated that new occupants of the PCL project will find public transport use more attractive, resulting in an additional 10,500 users per week day, or 21,000 daily trips. This is expected to generate a total of 5.25 million new trips per year and an additional revenue of $15.75 million, is expected.[163]

158 Pracsys Ltd, *The Link*, January 2009, p. 1.

159 Pracsys Ltd, *The Link*, January 2009, p. 2.

160 Pracsys Ltd, *The Link*, January 2009, p. 3.

161 Pracsys Ltd, *The Link*, January 2009, p. 3.

162 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Letter*, p. 1.

163 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Letter*, p. 1.

The PTA anticipates that a reduction in time taken to move between platforms in Perth Station and Perth Underground Station or between the train station and the bus station to continue a public transport journey, will result in an estimated annual saving (personal benefit) to existing public transport users of $4.6 million.[164]

Other transport benefits

Other benefits cited by PTA include operational flexibility as a result of platform extensions and additions providing scope to PTA to respond to emergencies or special events requirements, and ability for future rail links to be developed east of the City (such as to Perth Airport). The use of the underground facilities by public transport users and pedestrians is expected to reduce above ground road congestion and likely contribute to more effective deployment of buses traversing the CBD.[165]

The PCL, and its synergies with the EPRA and Channel 7 developments, provides an ability to develop employment opportunities in the central rather than the outer city, eliminating or reducing the use of private cars. It is estimated that there will be an annual private car savings of up to 50.5 million kilometres resulting in cost savings of up to $68.4 million per year. These savings are mostly in reductions in respect of private vehicle running costs, air pollution and accident trauma.[166]

5.5 Risk

Cost increases arising from scope change are something of a front-loaded risk, but other risks only become potential problems once projects are well under way. EPRA and the PTA face starkly different risks as the project moves into the construction and delivery phases.

PTA

At hearing, the PTA identified the construction of the new cut and cover tunnels for the Fremantle line as a key risk, as the new underground sections will have only minimal separation from the twin bore tunnels of the Joondalup line. According to the PTA a considerable amount of engineering work was conducted in order to establish that construction could be carried out safely.[167] The construction of the pedestrian underpass from the underground station to Perth Train Station was also identified as a significant engineering risk as it involves considerable preparation in order to lower the water table.

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164 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Letter*, p. 1.

165 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Letter*, p. 2.

166 Mr Reece Waldock, Chief Executive Officer, Public Transport Authority, *Letter*, p. 2.

167 Mr Ross Hamilton, Executive Director, Major Projects, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 22.

More generally, the PTA identified disruption of scheduled train services as a major risk associated with the project.

In terms of selecting the most appropriate procurement model, the PTA was motivated to select a procurement method that would enable it to effectively manage the risks collaboratively with the companies delivering the project. An alliance contract was therefore selected.[168]

In its major report last year, the Committee raised some doubts about the value for money outcomes offered by alliance contracts, although it also noted that in some circumstance alliance contracts are the most appropriate option. Indeed, the Committee found that alliances are suitable where there are a large number of unpredictable risks with complex interfaces; very tight time constraints; or there is a need for owner involvement during delivery.[169]

Given the risks associated with the rail elements of the PCL project, the selection of an alliance contract as a means of managing these risks seems sensible. Furthermore, the PTA itself noted that the risk profile for the construction of the underground bus station was very different to the risk profile for the construction of the railway works, thus ruling out the use of an alliance contract for the bus station.[170]

EPRA

As with the Perth Waterfront Redevelopment, the land development aspects of the PCL carry with them the risk that the land will fail to sell due to lack of demand, or that the sale price for the land will fail to meet expectations. This risk was identified as one of the drivers as to why the overall size of the waterfront redevelopment was scaled back. The waterfront's approach to this risk is worth contrasting to the PCL's approach.

In the PCL's case, 5.2 hectares of land (across eight lots) is to be sold to one developer. Although EPRA outlined several strategies designed to minimise risks associated with selling such a large parcel of land to a single developer, there remains potential risk that the aims the government intends to meet through the project may be stymied by any number of failures on the part of the developer, including financing difficulties, industrial disputes and the nominated designs failing to achieve the objectives of the PCL master plan.

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168 Mr Ross Hamilton, Executive Director, Major Projects, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 22.

169 Public Accounts Committee, *Inquiry into Project Planning and Funding Applications for Major Western Australia Infrastructure Projects*, Legislative Assembly, Perth, 18 November 2010, p. 94.

170 Mr Ross Hamilton, Executive Director, Major Projects, Public Transport Authority, *Transcript of Evidence*, 28 July 2011, p. 24.

Expressions of interest were called for the purchase of the land in early September 2011.

5.6 Concluding remarks

This is a major planning initiative to improve access between the city and Northbridge. It is not a project to improve public transport although some benefits are claimed to accrue from increased development in the city centre and improved pedestrian access to the train station. It is costing $760 million to sink 320 meters of existing urban rail line. That is some $2 million per metre. The assessment of the benefits of such expenditure is a subjective judgement with people holding differing views.

APPENDIX ONE

SUBMISSIONS RECEIVED

List of Submissions received for the inquiry.

No.	Date	Name	Position	Organisation
1	7 February 2011	Mr James K Mitchell	Managing Director	Synergy
2	7 February 2011	Mr Eric Lumsden	Director General	Department of Planning
4	30 March 2011	Mr James K Mitchell	Managing Director	Synergy
5	8 April 2011	Mr Glen Finn	Project Director	Department of Planning
6	22 September 2011	Mr Rob Delane	Director General	Department of Agriculture and Food

APPENDIX TWO

HEARINGS

Date	Name	Position	Organisation
16 March 2011	Mr James Mitchell	Managing Director	Synergy
	Mr Trevor Harvey	Acting Head of Wholesale	Synergy
23 March 2011	Mr Glen Finn	Project Director	Department of Planning
28 July 2011	Mr Reece Waldock	Chief Executive Officer	Public Transport Authority
	Mr Mark Burgess	Managing Director	Public Transport Authority
	Mr Ross Hamilton	Executive Director, Major Projects	Public Transport Authority
	Mr Ryan Keys	Acting Chief Executive Officer	East Perth Redevelopment Authority
	Mr Mark Reutens	Chief Finance Officer	East Perth Redevelopment Authority
31 August 2011	Mr Francis Bright	Regional Economist	Department of Agriculture and Food
	Mr Noel Wilson	Manager	Department of Agriculture and Food
	Mr Terry Hill	Executive Director	Department of Agriculture and Food

APPENDIX THREE

BRIEFINGS HELD

Date	Name	Position	Organisation
22 June 2011	Mr Peter Stubbs	Director, Ord-East Kimberley Expansion Project	Department of Regional Development and Lands
20 July 2011	Mr Donald Chulung	Business Proprietor	Wanna Work
	Mr Richard Beeck	Business Proprietor	Wanna Work
20 July 2011	Mr Brad Williams	President	Kununurra Chamber of Commerce and Industry
	Mr John Gault	Executive Officer	Kununurra Chamber of Commerce and Industry
20 July 2011	Cr Fred Mills	President	Shire of Wyndham East Kimberley
	Mr Gary Gaffney	Chief Executive Officer	Shire of Wyndham East Kimberley
20 July 2011	Mr Stuart Dyson	Project Director	Moonamang Joint Venture
21 July 2011	Mr Geoff Strickland	Chief Executive Officer	Ord Irrigation Cooperative
21 July 2011	Mr Franklin Gaffney	Chief Executive Officer	Miriuwung Gajerrong Corporation
	Ms Edna O'Malley	Vice Chairperson	Miriuwung Gajerrong Corporation

MINORITY REPORT

Public Accounts Committee

Review of Selected Western Australian Infrastructure Projects:

Minority Members Report

This report has been prepared by Mr Joe Francis MLA and Mr Tony Krsticevic MLA, as Members of the Public Accounts Committee.

While both of us agree with much of the content of the report, we are concerned about a number of statements and observations. In the majority of these areas of concern it is our belief that there is insufficient information to make the statements and claims. We therefore believe that without satisfactory evidence to support these statements, we cannot support the entire contents of this report.

THE EXECUTIVE SUMMARY

The Executive Summary is critical of the government's approach to funding submissions and requests to the Commonwealth. It fails to mention that the scope and parameters of the Perth City Link project changed significantly, resulting in the increase of cost estimations.

We do not consider it an issue for a government to amend the scope of a project after initially outlining its intentions. In fact it is our opinion that it would be negligent for a government not to adapt and review a proposal – unless of course such a change was minimal and so retrospective that it highlighted an original planning failure and especially if it occurred after construction had commenced, such as the failures and waste during the construction by the previous government of The Perth Arena.

CHAPTER 1 – INTRODUCTION

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We do not accept the statement that there is "continued poor performance of infrastructure delivery in general". This statement is made without evidence. In fact, when the many under-budget, under-time projects, across all of the areas of government that involves construction and procurement of infrastructure are considered, the government should be commended for the efficient delivery of projects across Western Australia.

The Fiona Stanley Hospital project is perhaps the most visible example in Perth of the successful projects the government is completing.

The Liberal Party Members have in previous minority reports highlighted our concerns at the use by the ALP Members to politicise findings of the Public Accounts Committee. It is our view that this again is the apparent intention of ALP Members of the Committee.

CHAPTER 2 – THE ORD EAST KIBERLY EXPANSION PROJECT

We accept that the financial feasibility of the Ord River Irrigation Area cannot currently be justified purely on the profitability of the agriculture industry. It must include consideration of the massive benefits that will flow towards social projects, especially towards the disadvantaged Aboriginal community in the Shire of Kununurra.

It is our submission that the best way to lift the living standards of Aboriginal peoples is to give them meaningful jobs and a sense of purpose. The benefits that flow from employment will lift the living standards, not only of the person employed but also of the entire Aboriginal community. Relieving people from the shackles of welfare and turning the tide from dependency, substance abuse and social issues towards a meaningful contribution is a cause that cannot be under estimated.

It is also worth noting that the Miriuwung Gajerrong people have indicated they are taking up their original 5%, plus they have indicated they are considering purchasing an additional 7.5% share of the agricultural land as is provided in their Right of First Refusal contract provisions.

It is encouraging to know that the Miriuwung Gajerrong people have faith in the financial sustainability of the project.

It is very difficult to estimate the financial and social benefit that will come from such infrastructure spending and we are not satisfied, as asserted in the report, that the project can be criticised given the evidence provided.

It is our view that the ORIA expansion project is a worthwhile investment of tax-payer money, which is supported by the Federal Government by way of $195 million of Commonwealth investment in social infrastructure for the project.

Additionally, it was a report commissioned by the previous ALP Government (Marsden Jacob) (Ord Expansion Case Evaluation) that found “a failure to proceed with an expansion to the ORIA would reduce economic activity in Stage 1 of the irrigation scheme”.

CHAPTER 3 – COLLGAR WIND FARM

We do not accept the political nature of this Chapter. It refers to the State Budget treatment of the project where the Department of Treasury and Finance, together with independent advice from one of the big four accounting firms, and supported by the Auditor General; found that the accounting treatment of this project should be treated as an operating lease rather than a finance lease.

We submit that the only reason this has been included it to attempt to discredit the projected figures and the estimates of the State Budget for political gain by the ALP.

We submit that correct accounting practice should be supported rather than being misrepresented.

CHAPTER 4 – PERTH WATERFRONT

We have concerns with statements throughout Chapter 4 that we believe are unfairly critical of the Government’s proposal without the evidence to justify the observations.

Some evidence was not made available on the grounds that the release of information might adversely impact on the competitive tender process. We accept that this is a reasonable and perfectly legal reason and that it is the right of the Government to take such factors into consideration when releasing information.

We do not accept the observation that “there was a danger that value for money outcomes would be compromised”.

If anything, any truly impartial observation of the $2.6 Billion development of the Perth Waterfront – mostly funded by private sector development – can justify the State net contribution of an estimated $255–$300 million.

In fact, when considering the benefits that will flow from areas such as employment, payroll tax, stamp duty and tourism, a 10% investment by the state for a $2.6 billion project must be one of the greatest economic stimulus projects ever undertaken in Perth!

Finally, the report is critical that the Government has not yet funded “the two key public attractions for the redevelopment” – namely the Cable Car project and the Indigenous Cultural Centre.

We submit that it is too early for us to determine what might be defined as the “two key public attractions”, considering the actual harbour is not mentioned and proposals for attraction by the private sector are yet to be identified.

CHAPTER 5 – PERTH CITY LINK

Finally, we have concerns with the political statements included in this Chapter.

We submit that crucial evidence has been omitted for political gain