Australian Government

Department of Infrastructure and Regional Development

Submission to the Senate inquiry into the decision to commit funding to the Perth Freight Link project

September 2015

Contents

1: Introduction

Key Points

- The Perth Freight Link project is the result of long term planning for a new freight connection to Fremantle Port.
- It incorporated development work already undertaken for the Roe Highway Stage 8 and High Street upgrade projects.
- The project responds to strong growth in freight traffic to and from Fremantle Port – almost 70 per cent over the past decade and strong growth predicted to continue.
- Rail freight plays an important role, but the overall growth in the freight task will result in a significant increase in containers going by road.
- Fremantle Port still has significant growth potential, and any future outer harbour development would complement, not replace, the existing port.
- The existing road route is unsuitable due to the volume of traffic, conflict with local and commuter traffic, and safety and amenity impacts.
- The funding commitment announced in the 2014-15 Budget provided the surety for more detailed development work to progress, including the development of a business case.
- The business case was prepared and, in December 2014, a summary was publicly released, with commercially sensitive material removed.
- Infrastructure Australia has assessed the project, finding it has strong economic and strategic merit.
- The procurement process is providing an opportunity to sharpen cost estimates in a competitive market environment and refine project designs.
- A detailed project proposal is being developed which will allow the payment of Australian Government funding to be approved.

The Department of Infrastructure and Regional Development (the Department) has prepared this submission to the Senate Rural and Regional Affairs and Transport References Committee inquiry into the decision to commit funding to the Perth Freight Link project.

The submission sets out the background to the Perth Freight Link project, describes the features and benefits of the project which support the Australian Government's decision to commit funding, and details the Department's involvement in the process which led to a decision to commit funding.

The Department has a key role in assessing proposals for new infrastructure projects, developing funding arrangements and providing advice to the Government. Established guiding principles are being followed in a thorough project development process, leading to a well-developed, construction ready project. The key steps involved are set out below.

- Long term planning for a new freight connection to Fremantle Port has been underway for several decades and has been the subject of ongoing dialogue between the Commonwealth and Western Australia.
- Development work was already well advanced for the Roe Highway Stage 8 and High Street upgrade projects.
- Development of Perth Freight Link brought together these two separate projects, taking a more integrated approach to develop a better overall solution.
- Western Australia provided project information to the Commonwealth, and preliminary work was undertaken at both Commonwealth and state level to develop a consolidated project scope, assess productivity benefits and investigate the viability of a heavy vehicle user charge.
- With the preliminary work identifying the merit of Perth Freight Link and significant economic benefits, the funding commitment was agreed and announced in the 2014-15 Budget.
- The funding commitment allowed further detailed planning and design to progress, including financial analysis and traffic modelling, which was incorporated into a business case and is being continually updated to reflect amendments in scope, cost and timing.
- Information on the project was released to the public in a business case summary in December 2014.
- Procurement processes are providing an opportunity to sharpen cost estimates in a competitive market environment and refine project designs.
- Infrastructure Australia has assessed the project as having strong economic and strategic merit (a 'threshold' project). It found it will address a nationally significant problem, aligns with strategic priorities and is likely to deliver net economic benefits.
- Environmental approval processes are underway, including significant community consultation which resulted in design refinements to minimise environmental impact.
- A comprehensive programme of stakeholder engagement is being undertaken by the Western Australian Government.
- Payment of Australian Government funds will be approved based on a detailed project proposal submitted by the Western Australian Government.

The development of the project responds to the need to provide a high standard port connection for freight, in the context of increasing volumes of containers being handled by Fremantle Port.

The project has been developed as part of an overall solution for getting freight to and from port, and as part of a long term plan to improve the broader Perth urban freight network, which is a key

enabler of Western Australia's $250 billion economy[1]. Key considerations informing the development of the project are outlined below.

- There is a need to provide a high standard freight connection to Fremantle Port due to rapid growth in container volumes – an almost 70 per cent increase over the past decade, with 700,000 twenty-foot equivalent units (TEUs) moved in 2013-14 and strong growth predicted to continue. This is fuelled by strong economic growth (averaging 4.5 per cent per year over the past 18 years) and population growth (averaging 2.6 per cent per year over the past decade) in Western Australia.
- There is critical role for both road and rail freight in transporting freight to and from Fremantle Port. Rail currently moves around 14 per cent of freight to and from Fremantle Port, and the Western Australian Government is targeting a 30 per cent market share for rail. However, with a growing freight task, there will be a significant increase in containers going by road.
- An improved freight connection needs to service the existing Fremantle Port. The port is still operating well within its capacity (estimated at 1.2 to 1.4 million TEUs per year), so has considerable growth potential. Further, any future outer harbour development would supplement, rather than replace, the inner harbour.
- The Perth Freight Link project complements the Gateway WA and NorthLink WA projects to improve the overall Perth urban freight network, creating an 85 kilometre continuous freight route[2].
- The project has been developed to complete a key missing link in the Perth urban corridor between the Roe Highway and Fremantle Port. It will replace the existing mixed use road link along the Kwinana Freeway and Leach Highway, where growth in freight traffic has compromised local access and impacted safety and amenity. The proportion of crashes involving heavy vehicles is 11 per cent on the Leach Highway, increasing to 19 per cent on High Street, above the metropolitan average of 5.4 per cent[3]. The 'stop-start' traffic on the Leach Highway also affects freight productivity, with the delays at major intersections along the Leach Highway totalling an average of 10 minutes in the morning peak[4].

[1] Perth Freight Link Business Case Executive Summary, December 2014 (p.3).
[2] Perth Freight Link Business Case Executive Summary, December 2014 (p.24).
[3] Perth Freight Link Business Case Executive Summary, December 2014 (p.13).
[4] Perth Freight Link Business Case Executive Summary, December 2014 (p.14).

2: Background to the Project

2.1: Economic and population growth in Western Australia

Western Australia has experienced significant economic growth and development over recent years, with an average of 4.5 per cent growth in Gross State Product over the 18 years to 2012-13[5]. Associated with this has been strong population growth, averaging 2.6 per cent per year over the decade to June 2013, compared to a national average of 1.6 per cent[6].

This rapid growth has placed increased pressure on the transport system. The links to Fremantle Port have come under particular pressure, with increasing demand for goods and services leading to an almost 70 per cent increase in container traffic throughput at Fremantle Port between 2003-04 and 2013-14, with strong growth expected to continue over the next decade[7].

The need to improve road freight access to Fremantle Port has been recognised by successive governments. The previous Infrastructure Investment Programme (2008-09 to 2013-14) included funding for a Perth Urban Transport and Freight Corridor upgrade, a package of projects aimed at improving supply chain connections through the Perth urban area, including to Fremantle Port. The package included an upgrade of High Street (now part of the Perth Freight Link project), directly aimed at improving port access, with a specific funding commitment of $59 million to this project announced in the 2013-14 Budget.

2.2: Role of rail freight

The Department recognises the importance of both road and rail projects in meeting current and future transport needs, and has promoted an integrated and holistic investment into the transport system, including road, rail and intermodal projects. With a growing freight task, there is a critical role for both road and rail in moving freight to and from Fremantle Port, and the capacity of the rail link to the port has been improved over recent years with several upgrade projects.

The $38 million Kewdale Intermodal Rail Supply Chain project, to which the Australian Government contributed $19 million, consisted of the North Quay Rail Terminal project and the Spearwood crossing loop. The North Quay Rail Terminal project involved extending three existing rail lines from 400 metres to 690 metres and constructing a 690 metre fourth line. This expansion enabled the terminal to accommodate longer trains and reduced the requirement to shunt trains. The project also included the construction of a crossing loop at Spearwood that enables freight trains to pass other traffic on the rail line that connects the port with the Kewdale and Forrestfield area.

To encourage short haul rail transport to Fremantle Port, the Western Australian Government has subsidised containers transported by rail since 2007. The Western Australian Department of Transport pays the subsidy to Intermodal Link Services (ILS), the operator of the North Quay Rail Terminal service. ILS then passes it on to the client through a reduction in the rail price, which contributes to making the rail freight service cost competitive with road freight services. The

[5] Perth Freight Link Business Case Executive Summary, December 2014 (p.7).
[6] Perth Freight Link Business Case Executive Summary, December 2014 (p.8).
[7] Perth Freight Link Business Case Executive Summary, December 2014 (p.9).

commitment to the rail subsidy is currently in place until 2016-17. The cost of the rail subsidy is estimated $2.959 million for 2015-16 and $2.458 million for 2016-17[8].

However, while rail will play a role in the overall solution to the Fremantle Port freight task, it will not meet the anticipated growth in the freight task. Rail has a natural competitive advantage in the transport of bulk freight and its competitiveness improves over longer distances, where the impost of double handling for the 'last mile' delivery by road does not represent as high a proportion of the overall transport costs. For instance, the east-west interstate rail line from Melbourne and Sydney to Perth (via Adelaide) captures around 80 per cent of the freight task. Rail can also play a significant role in shorter haul tasks, such as between ports and metropolitan or regional terminals where there are other specific circumstances such as road congestion or significant warehousing and distribution facilities at the terminal that make rail a more viable option. Rail also plays an integral role in the bulk transport of mining products and bulk or containerised agricultural products, such as grain.

Containers moved by rail averaged 13.6 per cent of the total freight task to and from Fremantle Port in 2013-14[9]. The Western Australian Government has a long term target of transporting 30 per cent of the total number of containers through Fremantle Port by rail[10]. However, even if rail continues to grow its market share towards this target, the overall growth in container traffic will still result in a significant increase in containers going by road.

2.3: Port capacity and outer harbour development

Also informing the development of the Perth Freight Link project has been the capacity of Fremantle Port and the potential future development of container port facilities at the outer harbour in Cockburn Sound.

Fremantle Port reported that it handled container trade of around 700,000 TEUs in 2013-14, which was 4.9 per cent above 2012-13 volumes[11]. However, these volumes are still well within the full capacity of the port, which is currently estimated at between 1.2 and 1.4 million TEUs per year[12]. The port is expected to reach its optimal capacity within 10 to 15 years[13].

The outer harbour offers the potential, in the long term, to handle container traffic in excess of the inner harbour capacity. However, an outer harbour would supplement, rather than replace, the inner harbour, which would continue to operate at or close to capacity[14].

This further growth potential of the inner harbour and its continued operation following any development of the outer harbour presents challenges with the current road infrastructure, which will be addressed by the Perth Freight Link project. Further, the Roe Highway Extension component of the Perth Freight Link project will service both the Fremantle Port and the outer harbour.

---

[8] Government of Western Australia, *2015-16 Budget Paper No. 2* (p.804).
[9] Department of Transport (WA) Annual Report 2013-14 (p.49).
[10] The Hon Dean Nalder MLA, WA Minister for Transport, response to Question on Notice 3800, 23 April 2015.
[11] Fremantle Ports Annual Report 2014 (p.6).
[12] The Hon Dean Nalder MLA, WA Minister for Transport, response to Question on Notice 3799, 23 April 2015.
[13] Fremantle Ports Annual Report 2014 (p.28).
[14] The Business Case Executive Summary (p.10) provides an indicative scenario for the inner and outer harbour transitioning arrangements, showing ongoing utilisation of both facilities once outer harbour operations commence.

As noted in Infrastructure Australia's assessment of the project, significantly higher benefits from the project are predicted in 2031 than in 2021, even though this takes into account a greater share of freight being directed to the outer harbour[15].

[15] Infrastructure Australia, 2014-15 Assessment Brief, Perth Freight Link, 7 May 2015 (released August 2015).

3: About the Project

3.1: Scope of the project

The Perth Freight Link project is being delivered in three sections:

- Section 1 – Roe Highway Extension: Extension of the Roe Highway from its existing terminus at the Kwinana Freeway to Stock Road in Coolbellup. This 5.2 kilometre new road, which will be Stage 8 of the Roe Highway, will be a four lane dual carriageway with interchange connections.
- Section 2 – Stock Road and Leach Highway upgrade: The reference design is for an upgraded route along Stock Road from the Roe Highway Extension to the Leach Highway, then along the Leach Highway, High Street and the Stirling Highway as far as Marmion Street. Improvements will include grade separations, intersection improvements and widening. An alternative option, involving a tunnel for Section 2, is also being investigated as part of the procurement process.
- Section 3 – Roe Highway pinch point widening: Widening of a 1 kilometre section of the existing Roe Highway between the Tonkin Highway and Welshpool Road. This will alleviate a pinch point on the heavy vehicle charging network that will be implemented as part of the Perth Freight Link project.

An alternative tunnel option for Section 2 is being investigated by tenderers as part of the procurement process. This process provides the opportunity for tenderers to put forward the best possible design to maximise the project benefits.

The project complements the Australian Government's investment in the Gateway WA and NorthLink WA projects. Together, the three projects constitute a substantial network improvement that will create a high standard freight connection through the Perth urban area to Fremantle Port, with the Roe Highway established as the preferred east-west route into the port.

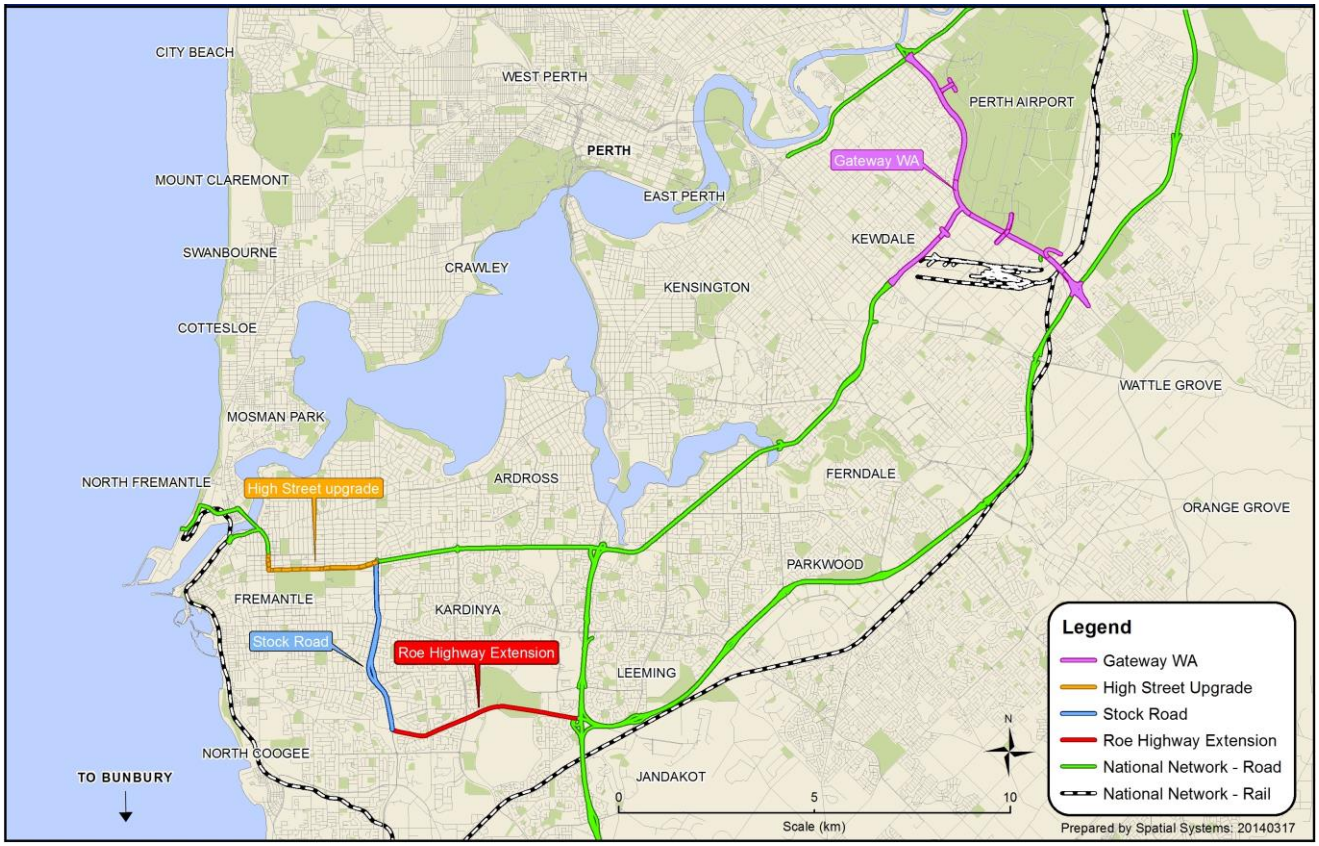
A map of the project is provided at Figure 1.

3.2: Cost and funding

The cost of the project is estimated at $1,575 million[16]. The Australian Government funding commitment to the project, announced in the 2014-15 Budget, is $925 million[17]. The Western Australian Government will provide $650 million to the project, comprising $275.5 million as an agreed contribution under the *National Partnership Agreement on Land Transport Infrastructure Projects* and $374.5 million as the amount to be recovered from the implementation of a heavy vehicle user charge[18].

[16] P50 cost estimate, Perth Freight Link Business Case Executive Summary, December 2014 (p.27).
[17] The funding commitment was announced in a joint media release from the Deputy Prime Minister, the Hon Warren Truss MP, and the Hon Jamie Briggs MP, Assistant Minister for Infrastructure and Regional Development – *Perth Freight Link: Improving Capacity to the Port of Fremantle*, 13 May 2014 (http://minister.infrastructure.gov.au/wt/releases/2014/May/budget-infra_16-2014.aspx)
[18] The Western Australia Schedule of Projects in the National Partnership Agreement (http://investment.infrastructure.gov.au/publications/policies/pdf/NPA_Schedule_WA_October_2014.pdf) includes WA's $275.5 million agreed commitment. This comprises $59 million under the Investment Programme project 'Leach Highway (High St)' and $216.5 million under the Asset Recycling Fund – Infrastructure Growth Package project 'Perth Freight Link'. The WA Government will initially also provide the $374.5 million to be recovered from the heavy

Figure 1: Perth Freight Link project map



The implementation of a heavy vehicle user charge to recover some of the capital cost of the project (and therefore reduce the ultimate cost to government) represents a significant change in the delivery of infrastructure projects in Western Australia. It will be a distance based charge proposed to be collected through a GPS based system, and will be applied on the 85 kilometre corridor through the Perth urban area from Muchea to Fremantle Port[19].

The rate of the charge will be set so that benefits are shared between government and industry (i.e. it will be less than the productivity benefits received by freight operators).

While the state government will initially provide the funding to be recovered from the heavy vehicle user charge (and will accept the associated revenue risk), there is potential for the state to sell the rights to the user charge revenues to a private sector operator once traffic flows are established, allowing the sales revenue to be recycled into other economic infrastructure.

---

vehicle user charge, bringing its total contribution to $650 million, as indicated in the Perth Freight Link Business Case Executive Summary. The WA Government funding is confirmed in the 2015-16 state budget (Government of Western Australia, *2015-16 Budget Paper No. 2*, p.818)

[19] Perth Freight Link Business Case Executive Summary, December 2014 (p.25).

3.3: Benefits

The benefits of the project are set out in the business case summary, which was publicly released in December 2014. As indicated in the business case summary, the project is expected to deliver significant benefits, with a Benefit Cost Ratio (BCR) of 2.8[20] (based on the P50 cost estimate and a 7 per cent discount rate[21]).

The new route will bypass 14 sets of traffic lights, resulting in less delay and frustration for freight vehicles. For heavy vehicles, it is expected to provide savings of $8.15 in vehicle operating costs and nine and a half minutes in travel times per trip. Overall, vehicle operating cost savings are expected to total $840 million[22].

The project will also deliver benefits for the local community, with safety and amenity improved due to the removal of an estimated 500 trucks per day from the Leach Highway by 2031[23]. The project will also improve connectivity to the Murdoch Activity Centre and Fiona Stanley Hospital[24].

3.4: Infrastructure Australia assessment

Infrastructure Australia completed its assessment of the project in May 2015, and the assessment was publicly released in August 2015[25]. Infrastructure Australia assessed the project as being at the 'threshold' level, which means the initiative is found to have strong economic and strategic merit[26]. It concluded that it will address a nationally significant problem and expressed confidence that it will deliver net economic benefits. The project was found to align with Infrastructure Australia's strategic priorities of increasing productivity, expanding productive capacity and building on Australia's global competitive advantages through delivering a more efficient freight network.

Noting that other options were considered, Infrastructure Australia found that the proposed Perth Freight Link project is preferable to the lower cost High Street upgrade which it previously assessed, and that the proposed solution continues to have merit if the outer harbour is developed.

Infrastructure Australia noted that work remained to be completed on deliverability, and that there are risks around estimated costs. As set out in the next section of this submission, this aligns with the Australian Government's approval processes, where the funding commitment has allowed this development work to proceed, including the early stages of the procurement phase, and further progress has been made in this regard since Infrastructure Australia's May 2015 assessment. This will allow a more developed project proposal to be considered as part of the decision to formally approve Australian Government funding for project delivery.

[20] Perth Freight Link Business Case Executive Summary, December 2014 (p.29).
[21] Note that the BCR of 2.5 quoted in the Infrastructure Australia Assessment Brief was based on the P90 cost estimate, at a discount rate of 7 per cent.
[22] Perth Freight Link Business Case Executive Summary, December 2014 (p.4). Benefits are expressed in net present value terms (i.e. discounted to 2014 dollars). The economic appraisal considers benefits over 30 years from project opening.
[23] Perth Freight Link Business Case Executive Summary, December 2014 (p.3).
[24] Perth Freight Link Business Case Executive Summary, December 2014 (p.20).
[25] Infrastructure Australia, 2014-15 Assessment Brief, Perth Freight Link, 7 May 2015 (released August 2015).
[26] The four categories of projects on Infrastructure Australia's Infrastructure Priority List are 'early stage', 'real potential', 'threshold' and 'ready to proceed'. Initiatives in the 'threshold' category are defined as having strong strategic and economic merit, and are only not ready to proceed due to a small number of outstanding issues.

4: The Department's Role in the Development of Major Infrastructure Projects

4.1: Guiding principles

The Department provides advice to the Australian Government to assist in the decision making process for major infrastructure projects such as Perth Freight Link. The guiding principles in identifying potential future projects are that projects are identified through long term planning, with state/territory governments submitting proposed projects for assessment by the Commonwealth with regards to strategic priorities and economic viability. Projects where Commonwealth funding of more than $100 million is sought are also assessed by Infrastructure Australia. The Department also has a role, along with central agencies, in developing funding and financing options[27].

Major projects and their funding contributions are then agreed through negotiations between the Commonwealth and the respective state/territory government, and incorporated into the *National Partnership Agreement on Land Transport Infrastructure Projects*.

Once funding to a project is committed, the project is further developed and, following an assessment process, Australian Government funding is approved under the *National Land Transport Act 2014*[28]. Australian Government funding for projects can be approved in phases, of which a project could have up to five:

- identification;
- scoping;
- development;
- delivery; and
- post-completion.

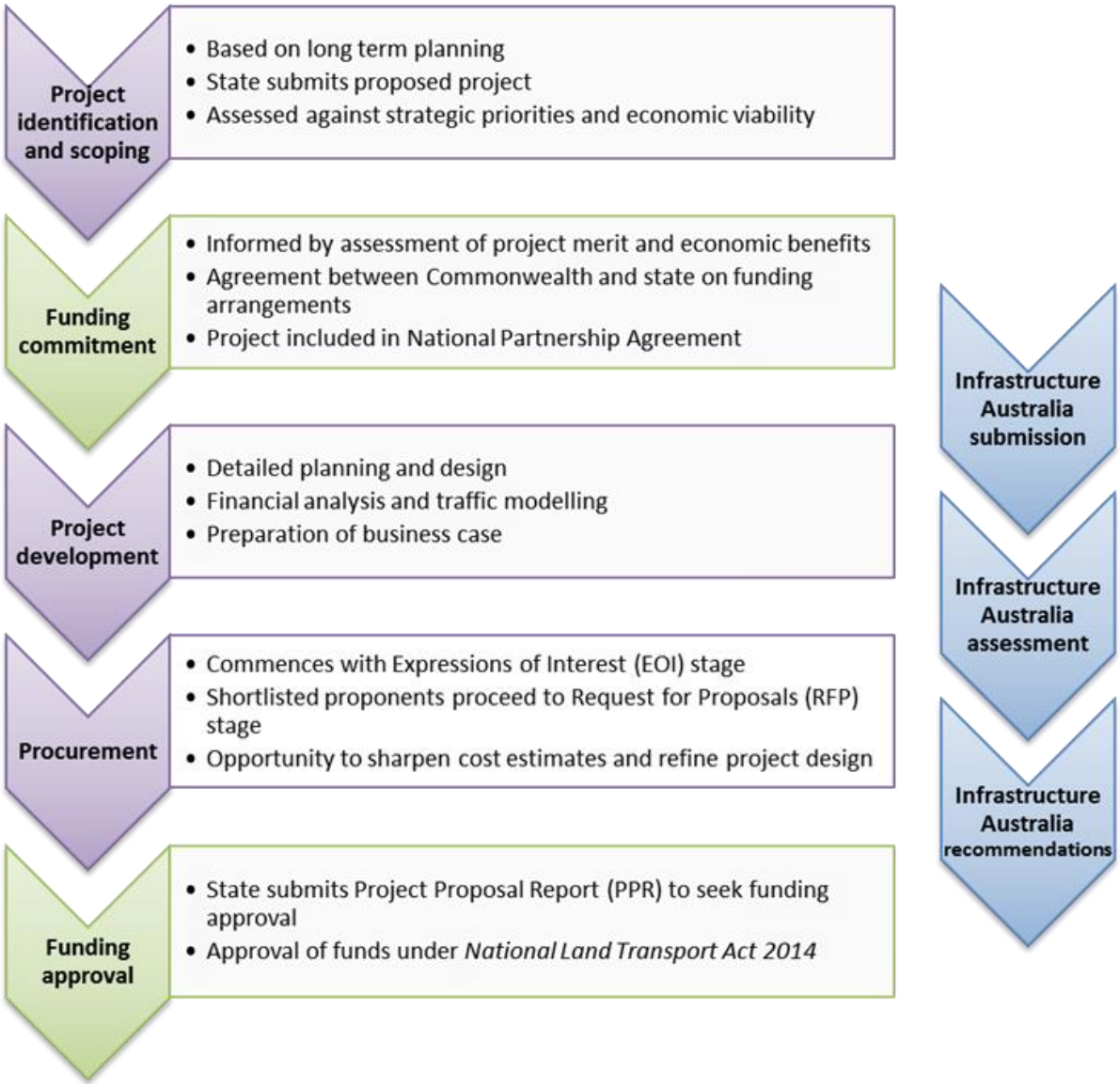
The Australian Government approves funding based on information provided by the state/territory in a Project Proposal Report (PPR). The PPR sets out details including the project scope, problems it addresses, cost estimate, project benefits and timing of construction. For some projects, including Perth Freight Link, the state will deliver the earlier phases prior to the approval of Australian Government funding (Perth Freight Link is currently in the development phase, and a PPR will be submitted to seek approval of funding at the delivery phase).

Following the approval of funding, the Department has an ongoing role in monitoring project progress.

A schematic of the overall process as it was applied to the Perth Freight Link project is shown in Figure 2.

[27] The guiding principles are set out in more detail in the Department of Infrastructure and Regional Development's submission to the Productivity Commission Inquiry into Public Infrastructure, December 2013.
[28] The approval process and the project phases are set out in more detail in the *Notes on Administration for Land Transport Infrastructure Projects, 2014-15 to 2018-19.*

Figure 2: Project approval process



4.2: Commitment and approval of funding

There is an important distinction here between the *commitment* and *approval* of Australian Government funding. A funding commitment is the start of major planning work, not the culmination. It signals that a project has been identified at a high level as a solution to a particular infrastructure problem and that it is likely to deliver productivity and/or safety benefits. On this basis, the Commonwealth and state/territory governments agree to provide funding for the project, which enables the commencement of more detailed planning work. A project may include a

reference design at the funding commitment stage as a basis for further development work, but this is not necessarily the final proposal.

Approval of funding is a separate step that comes after the funding commitment and once further steps, such as detailed planning, have been progressed and environmental and heritage approvals have been secured. The process involves the state/territory submitting a PPR, which forms the basis of the Australian Government Minister's decision to formally approve the project and funding under the *National Land Transport Act 2014*.

Approval of funding by project phase means that by the time approval is sought for the delivery phase (i.e. project construction, which will comprise the majority of the project cost), the project is very well-developed. A PPR seeking approval of funding for the delivery phase of a project can be expected to contain considerably more detail on the project than would previously be available, reflecting the volume of development work that would need to have been undertaken to progress the project to construction readiness. The delivery PPR is the Australian Government's key opportunity to obtain the necessary assurances that its investment in the project will deliver value for money and that other approvals and clearances have been secured.

5: Development of the Perth Freight Link Project

The process followed in developing the Perth Freight Link project up to and following the commitment of Australian Government funding has been in accordance with the guiding principles that are set out in the previous section of this submission.

5.1: Consideration of the project based on long term planning and ongoing dialogue

The project came about as a result of long term planning. A high standard road connection to Fremantle Port has long been identified in Western Australian planning, with the preservation of a corridor for the Roe Highway stages 8 and 9 and the Fremantle Eastern Bypass included in the Metropolitan Region Scheme since the 1960s. The Fremantle Eastern Bypass was removed from the Metropolitan Region Scheme in November 2003, with land owned by the Western Australian Government subsequently sold for residential development.

The Department is engaged in ongoing dialogue with Western Australian Government agencies on future infrastructure priorities. This involves identifying current and future pressures on the transport network, for instance, the impact of forecast growth in ports, airports and freight handling facilities, as well as areas of population and industry growth.

This dialogue needs to be undertaken on a confidential basis. It is part of a deliberative process where the Australian and Western Australian governments need to be able to engage in a full and frank exchange of ideas and information without prejudice. The Western Australian Government provides a range of information to the Department on the basis that it is provided in confidence. If the Australian Government were to release this information, it would be a breach of that confidence, which could compromise the ability for this flow of information to continue into the future.

In the Department's discussions with the Western Australian Government on future priorities, the need to improve road access to Fremantle Port has been raised consistently as a high priority over the course of successive governments.

5.2: Previous planning work undertaken by Western Australia

The Western Australian Government has previously undertaken some of the planning work required for the Roe Highway Stage 8 (Section 1 of Perth Freight Link) and for an upgrade of High Street (which became part of Section 2 of Perth Freight Link).

For the Roe Highway Stage 8, the Western Australian Government previously provided $20 million for project development, including concept design, environmental appraisals and community consultation. That the Roe Highway Extension was already a well-developed project prior to the Australian Government funding commitment is evidenced by the fact that it has been able to be brought so quickly to construction readiness, with construction expected to commence in early 2016.

The Western Australian Government had also progressed planning for the High Street upgrade following the Australian Government's commitment in 2007 to a package of projects on the Perth

urban corridor. The work undertaken enabled an Australian Government commitment of $59 million to the project to be announced in the 2013-14 Budget (with the Western Australian Government to provide a further $59 million). The project was to involve the upgrade of High Street to a four lane divided road on a new alignment between Carrington Street and the Stirling Highway. As part of the development of Perth Freight Link, and informed by the planning work already undertaken, the High Street upgrade became part of Section 2 of Perth Freight Link.

5.3: Development of the Perth Freight Link proposal

With previous development work having been undertaken on the Roe Highway Stage 8 and the High Street upgrade, the work to develop the Perth Freight Link project involved bringing together the separate projects, taking a more integrated approach to develop a better overall solution.

In particular, it was recognised that a more substantial upgrade for Section 2 would be needed to complete the link to Fremantle Port. With the Fremantle Eastern Bypass corridor no longer available following its removal from the Metropolitan Region Scheme, the governments developed an alternative alignment for Section 2 involving upgrades to Stock Road and the Leach Highway, taking into account the project development work undertaken for the High Street upgrade project. As a result of community and industry feedback, through the subsequent procurement process, tenderers have been invited to consider an alternative to this reference design involving a tunnel route for Section 2.

It is also recognised that additional work will be required in future to further improve access in the immediate vicinity of Fremantle Port and to fully complete an upgraded freight route from Muchea to the port. These issues are under continuing discussion between the Australian and Western Australian governments. However, the significant economic benefits of the Perth Freight Link project are not dependent on the completion of any further work beyond the announced project scope.

5.4: Assessment against strategic priorities and economic viability

Prior to the funding commitment, preliminary work was undertaken by both the Australian and Western Australian governments, including development of the project scope, assessment of productivity benefits and financial analysis. As part of this work, a heavy vehicle user charge was identified as an option to reduce the government funding required for the project. The heavy vehicle user charge will also establish a price mechanism to drive more efficient use of the freight network, for instance by providing an incentive for freight operators to maximise spare capacity and reduce empty running.

5.5: Funding commitment

The funding arrangements for Perth Freight Link were negotiated and agreed between the two governments. The Australian Government's funding commitment to the project was announced in the 2014-15 Budget.

In making the funding commitment to Perth Freight Link, the Government was informed by preliminary work undertaken by both Commonwealth and Western Australian Government

agencies, including the development of project scope, assessment of productivity benefits and traffic modelling. This work established the merits of the project, its economic benefits and the viability of reducing the cost to government through a heavy vehicle user charge. It indicated that the project warranted the more detailed planning and design work that can only be undertaken with the surety provided by a government funding commitment.

Following the funding commitment announced in the 2014-15 Budget, further detailed planning and design was undertaken, leading to the development of the business case. The project was included in the *National Partnership Agreement on Land Transport Infrastructure Projects* and the state government funding contribution was confirmed in the 2015-16 state budget[29].

5.6: Business case

The funding commitment enabled Western Australian Government resources to be directed to the further development of the Perth Freight Link project. Work was undertaken to further refine the project, and this was developed into a business case during 2014.

The business case sets out the proposed project in more detail, and includes information on its strategic context, problems it addresses, costs and benefits, risks and the operation of the heavy vehicle user charge. The business case included an options assessment, where 12 options were shortlisted and rated against a range of criteria. An options assessment process resulted in the Perth Freight Link project being assessed as the highest rated option.

In line with the Australian Government policy objective of promoting a user charging regime to support the delivery of infrastructure projects, the Department commissioned analysis of the Western Australian Government traffic data in order to prove the concept of a heavy vehicle user charge in Perth. The modelling and financial analysis demonstrated that a heavy vehicle user charge was viable. The Western Australian Government continues to draw on this analysis as it further develops the traffic and financial case.

While the full business case contains details which are commercially sensitive in the context of procurement processes, the key details were included in the business case summary released in December 2014.

The business case was also used by the Western Australian Government as the basis for a submission to Infrastructure Australia. Infrastructure Australia assessed that the project addresses a nationally significant problem, aligns with its strategic priorities around increasing productivity and is likely to deliver net economic benefits.

5.7: Procurement

Following the completion of the business case, the Western Australian Government commenced procurement processes for the project. In February 2015, Expressions of Interest (EOIs) were sought for Sections 1 and 2, with shortlisted proponents proceeding to the Request for Proposals (RFP) process which commenced in May 2015 (a separate procurement process will be conducted for Section 3).

[29] Government of Western Australia, *2015-16 Budget Paper No. 2* (p.818).

This procurement process provides an opportunity to sharpen the cost estimates for the project in a competitive market environment. An important part of the process is also the ability of proponents to bring an innovative approach to further refine the design of the project (including, but not limited to, the investigation of a tunnel option for Section 2).

Infrastructure Australia's assessment noted that work on the deliverability of the project, including detailed design, is yet to be completed. The refinements to design, cost and timeframes being undertaken as part of the procurement process is progressing this work so that the project will be construction ready.

5.8: Environmental approvals

The Western Australian Government has progressed the process of obtaining environmental approvals at both the state and Commonwealth level for the project.

As part of its previous planning work for the Roe Highway Stage 8, the Western Australian Government undertook comprehensive environmental studies and community consultation. This process resulted in the refinement and modification of the project design to minimise the environmental impact.

The project will include innovative bridge construction techniques to minimise the impact on wetlands and reduce the project footprint, and underpasses to maintain ecological connectivity for fauna. It will deliver environmental benefits through the rehabilitation of degraded areas of the Beeliar Regional Park and replanting of cleared areas with native plant species.

Environmental approval for the Roe Highway Extension was obtained from the Western Australian Minister for Environment on 2 July 2015. The approval imposes strict conditions to minimise the environmental impact, and significant areas of land will also need to be acquired as offsets to address residual impacts.

The state environmental approval in July 2015 enabled the project to the referred to the Commonwealth Department of the Environment in order to be considered by the Commonwealth Minister for the Environment under the *Environment Protection and Biodiversity Conservation Act 1999*.

The environmental assessment processes for Section 2 will be undertaken once the alignment of the route (i.e. either surface route via Stock Road and the Leach Highway or the tunnel option) is confirmed.

5.9: Approval of Australian Government funding

While funding was allocated in the Budget and provided for in the *National Partnership Agreement on Land Transport Infrastructure Projects*, no payments have yet been made to the Western Australian Government for the Perth Freight Link project.

The final step to allow the payment of funds to be approved requires Main Roads Western Australia to prepare and submit a detailed PPR to the Department. The PPR is based on the extensive project development work that has been undertaken. It will need to provide sufficient detail to meet all requirements for the Australian Government to be satisfied that the project

complies with the *National Land Transport Act 2014* and that it represents value for money for its investment. It is expected that the payment of funds for each of sections 1 and 2 will be approved separately.

5.10: Financial analysis and traffic modelling

An important component of the development work that is being undertaken is the financial analysis and traffic modelling that supports the feasibility of implementing a heavy vehicle user charge.

Prior to the commitment of funding, the preliminary work undertaken by the Department included preparation of strategic cost estimates, a desktop analysis of user charge revenue, funding options analysis and financial modelling. The preliminary work undertaken by Main Roads Western Australia included development of the project scope, estimation of travel time savings and assessment of productivity benefits.

Following the funding commitment, further work was undertaken in more detail by both governments. This work was an important input into the development of the business case. It included further analysis from the Western Australian Government on traffic volumes and the productivity benefits for freight vehicle operators. It also included detailed modelling of the introduction of a heavy vehicle charge, which informed the development of the Muchea to Fremantle charging corridor, potential charging rates and collection technologies.

Work was also carried out on project financing which, among other things, resulted in the decision to adopt a 'build and hold (and/or eventual sell)' financing approach, where the Western Australian Government provides funding up front in lieu of a private sector contribution to be recovered from the heavy vehicle user charge. Subsequently, it may consider selling the entitlements to future revenues once the road is open and traffic volumes are well established.

To further develop the project, the Western Australian Government has undertaken further financial analysis and traffic modelling subsequent to the finalisation of the business case.

The details of the financial analysis are confidential. Procurement processes for infrastructure projects are structured on prospective tenderers preparing bids and prices based on their own commercial calculations. Accordingly, it is usual practice to not make available this sort of detailed information to tenderers. The release of the financial analysis could compromise the ability of the governments to obtain the best value for money from the tender process.

5.11: Stakeholders

Prior to the funding commitment to the project in the 2014-15 Budget, the environmental assessment process for the Roe Highway Extension commenced by the Western Australian Government involved a comprehensive programme of community consultation. Design refinements were developed in response to the public submissions that were made.

In April 2015, the Western Australian Government commenced a formal programme of stakeholder consultation for the full Perth Freight Link project. Main Roads Western Australia has developed an approach for communications and stakeholder engagement which draws upon its considerable

experience in engaging stakeholders on the delivery of major infrastructure projects. Key stakeholders were identified, including:

- local governments;
- community, environmental and indigenous groups;
- the freight industry, including peak industry bodies, major freight operators and freight customers;
- local residents, businesses and other landowners and land users;
- Fremantle Ports; and
- government agencies.

The consultation with industry is important in ensuring that the project delivers benefits for the freight industry and that the implementation of the heavy vehicle user charge proceeds smoothly.

As with many infrastructure projects, particularly in urban areas, land acquisition is acknowledged as a sensitive issue due to the disruption for affected residents and businesses. Accordingly, minimising the land acquisition requirements as much as possible is an important part of the project design process.

Finalisation of the route, and therefore any land acquisition requirements, is a very high priority in order to provide certainty for those impacted. Landowners potentially affected by the Perth Freight Link project have been notified and preliminary discussions have taken place. Formal processes to acquire any private land needed for the project will commence once the route for Section 2 is finalised and precise land requirements are known.

6: Conclusion

The Perth Freight Link is a project that will deliver significant economic benefits to Western Australia by improving the operation of the Perth urban freight network, in particular access to and from Fremantle Port.

The project has been developed as part of an overall freight solution and as part of a long term plan to improve the Perth urban freight network. Notwithstanding the important role for rail freight, a need for an improved road link to the port has been identified to cater for growing traffic volumes. Access needs to be improved to the existing port as it has considerable further growth potential and, even if the outer harbour is developed, will continue to operate as a key piece of economic infrastructure.

The funding commitment to the project announced in the 2014-15 Budget was based on the identification of the project as the solution to a transport problem that is likely to deliver productivity benefits. It was the result of long term planning for a new freight connection to Fremantle Port and brought together prior development work for the Roe Highway Stage 8 and High Street upgrade projects. The Department played a role in assessing the project against strategic priorities and economic viability, developing funding arrangements and providing advice to the Australian Government.

The funding commitment allowed the commencement of more detailed work to develop the project to the point where construction can commence. Work on this extensive task has only been possible with a funding commitment in place.

This development work has been incorporated into a business case, the key information of which was publicly released in the form of a summary document in December 2014. It confirms that the initial basis for committing funding was sound. Significant economic benefits include travel time and vehicle operating cost savings, and improved safety and amenity. The BCR is estimated at 2.8.

Infrastructure Australia has assessed the project, finding that it aligns with its strategic priorities around increasing productivity, will address a nationally significant problem and is likely to deliver net economic benefits.

As a result of the extensive development work undertaken, the Australian Government's decision to formally approve the payment of funding for project delivery will be based on a detailed and well-developed project proposal.

Construction on the project is scheduled to commence in 2016 and the project is expected to be completed and operational by 2020.