Light Rail Stage 2
………in the Budgetary Context

Framework....three questions

❖ What is the problem to be solved?
- o Distinguish between needs, preferences and wants
- o Clear objectives
- o Measures of success

❖ What works?
- o Solution and its cost
- ➤ Technical efficiency question

❖ Is it affordable?
- ➤ Budget constraint introduces an ethical dimension
- ➤ Choices need to be made – those choices have consequences

Ethical dimension…..what is fair and equitable?

❖ What is foregone?
   o What are the other choices? What services or projects are relegated to a lower priority?
   o Who benefits and whose needs are not met?

❖ How will the project be financed?
   o Users of the service/infrastructure?
   o Current generation – how are the costs distributed?
   o Future generations – intergenerational equity?

❖ What are the implications of the choices (priorities)?
   o Analytic methods (Cost-Benefit Analysis, Distributional Impact Analysis, Financial Appraisal, Multifactor Optimisation etc.) can be useful
   o Has there been a community wide discussion of these questions?

Budgetary Context...
Weak operating budget...weakest of all states and territories

After recovering from Global Financial Crisis (surplus in 2011-12), ACT is the only jurisdiction not to have posted an operating budget surplus since 2012-13.
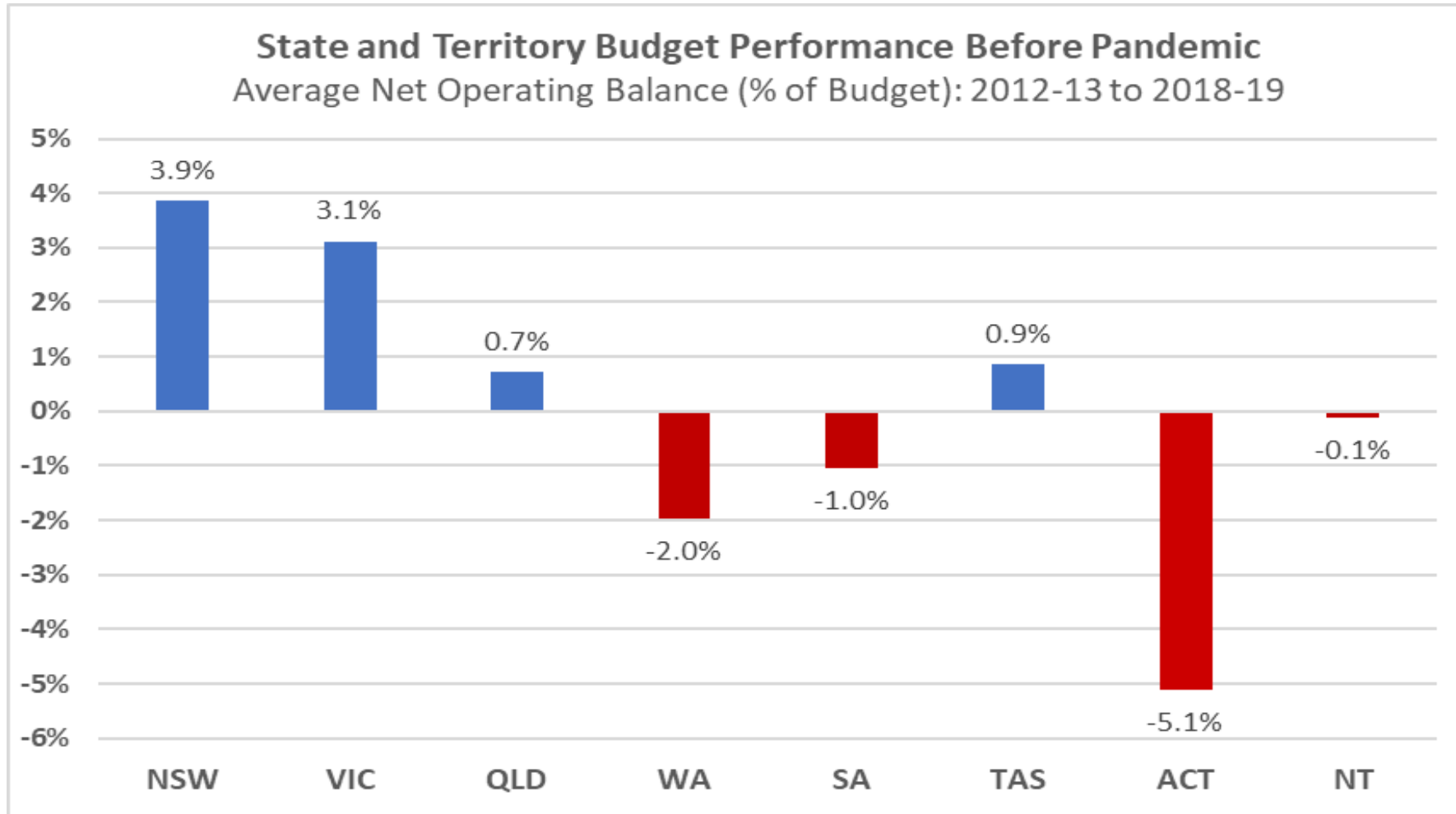
Net Operating Balance (% of Budget)

State/Territory	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
NSW	1.0%	-1.9%	1.7%	5.1%	6.3%	7.4%	6.6%	1.8%	-10.6%	-7.9%
VIC	-0.2%	-0.4%	5.2%	2.6%	5.4%	3.7%	3.1%	2.2%	-13.9%	-25.2%
QLD	-0.5%	-10.9%	1.4%	1.1%	2.0%	6.6%	3.6%	1.3%	-11.5%	-4.1%
WA	2.7%	1.0%	2.7%	-1.6%	-8.3%	-9.6%	-2.6%	4.7%	3.6%	16.3%
SA	-1.7%	-6.7%	-6.9%	-1.3%	1.8%	2.4%	-0.8%	4.2%	-9.9%	-6.3%
TAS	-4.1%	-5.5%	-3.5%	-1.9%	2.0%	12.9%	1.2%	0.9%	-10.2%	-3.9%
ACT	1.1%	-8.7%	-5.6%	-5.8%	-5.9%	-2.6%	-1.3%	-5.7%	-18.1%	-8.2%
NT	3.7%	-2.1%	2.4%	8.4%	5.3%	-1.1%	-6.5%	-7.2%	-18.4%	-10.6%

Source: Government Finance Statistics; ABS Cat 5512.0

Budgetary Context...before Pandemic
## Sustained operating deficits....largest on average of all States and Territories

State and Territory Budget Performance Before Pandemic
Average Net Operating Balance (% of Budget): 2012-13 to 2018-19

State/Territory	Value
NSW	3.9%
VIC	3.1%
QLD	0.7%
WA	-2.0%
SA	-1.0%
TAS	0.9%
ACT	-5.1%
NT	-0.1%

Source: Government Finance Statistics; ABS Cat 5512.0
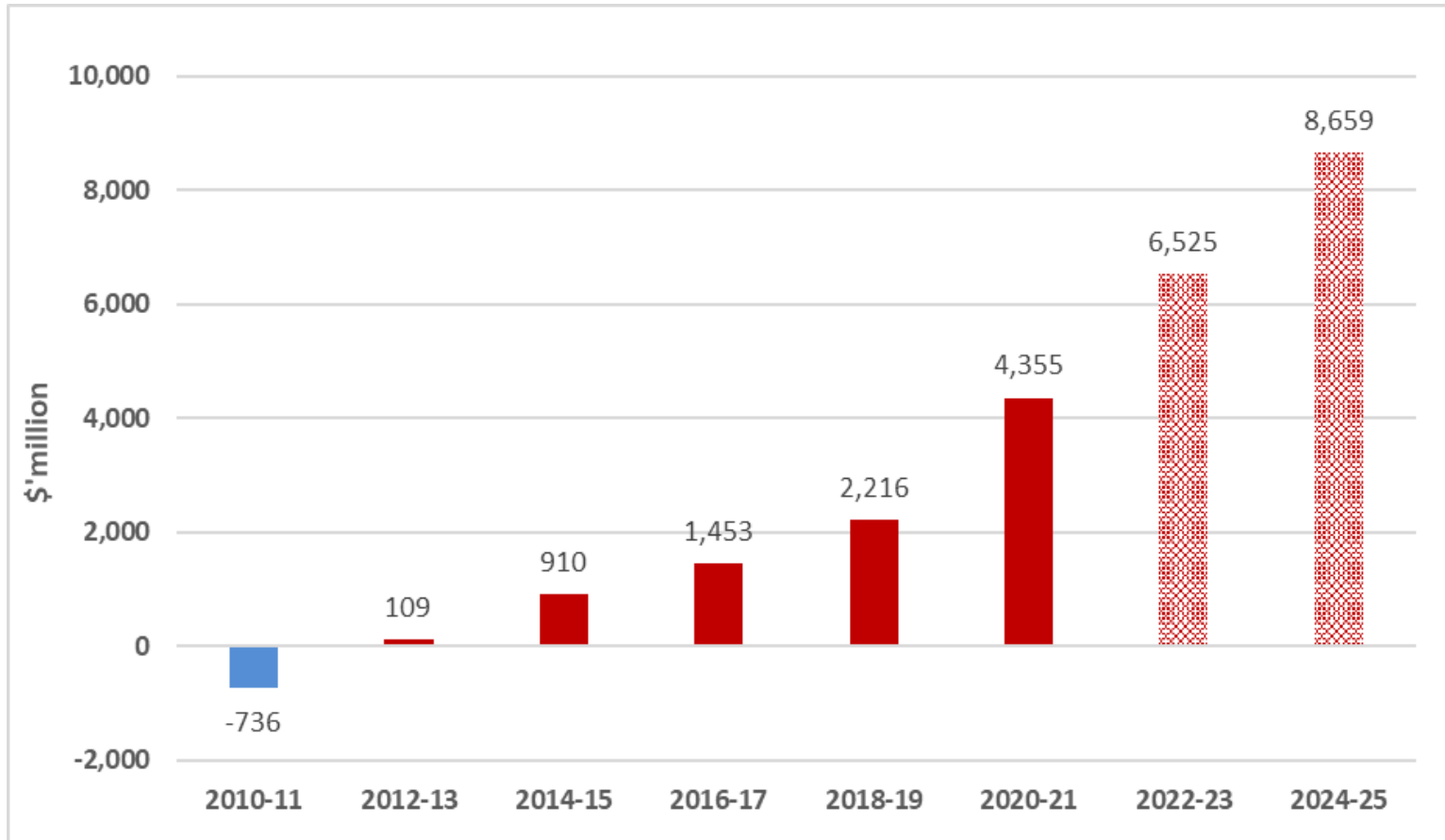
Budgetary Context...looking forward post Pandemic
No prospects of returning the operating budget to balance
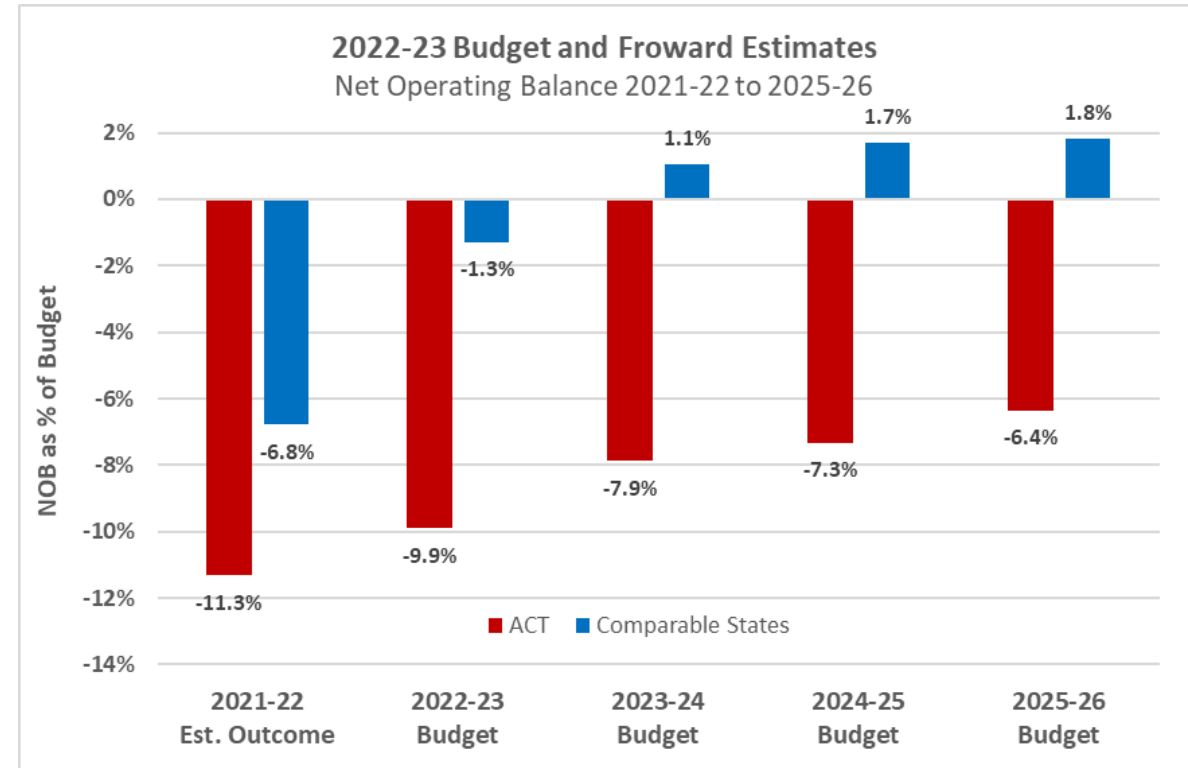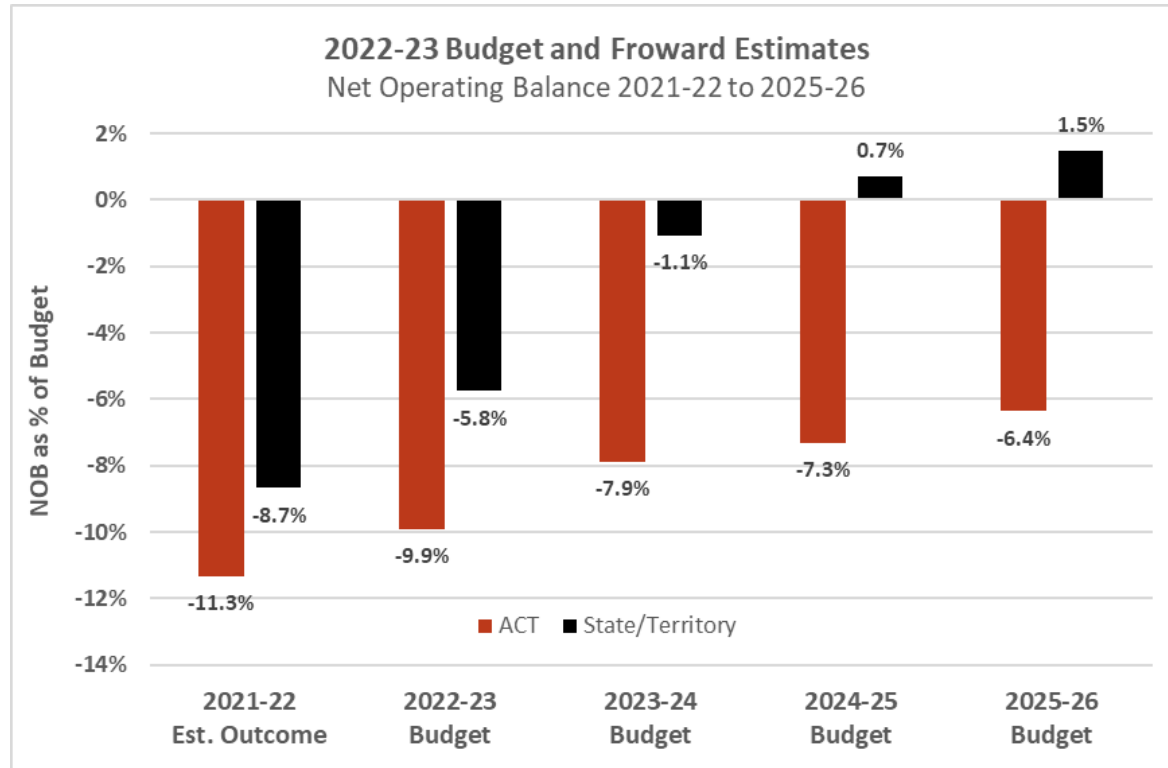
Source: 2022-23 Budget Papers; respective States and Territories.

Budgetary Context…
## Net Debt….doubling over four years and interest costs exceeding $500 million

- Negative Net Debt ($473 million) in 2011-12, the last year of a surplus.

- Unsustainable growth before pandemic, and continuing post Pandemic.

- Net Debt doubling over the forward estimates.

- Interest costs increasing from $272 million in 2021-22 to $517 million in 2025-26.

- Negative primary balance – borrowing to pay interest.

- No prospects of debt growth stabilising due to ongoing operating deficits.

Budgetary Context...looking forward post Pandemic
Net Debt to Revenue Ratio
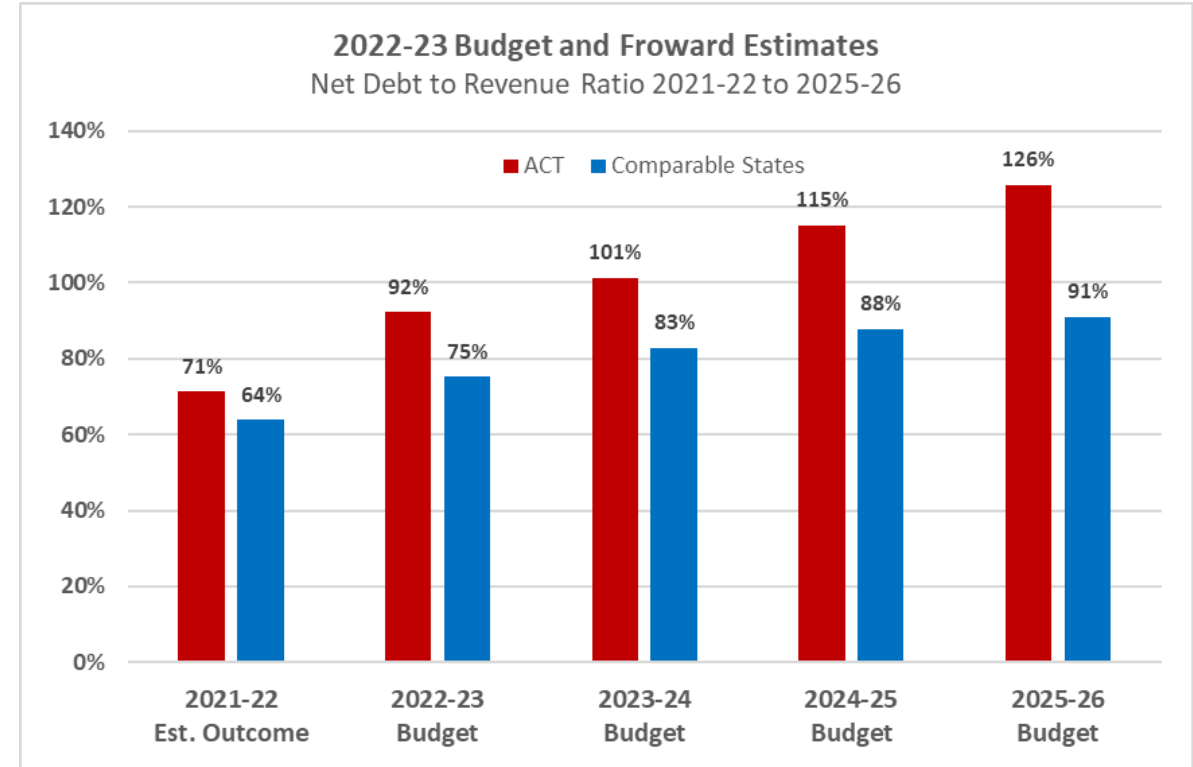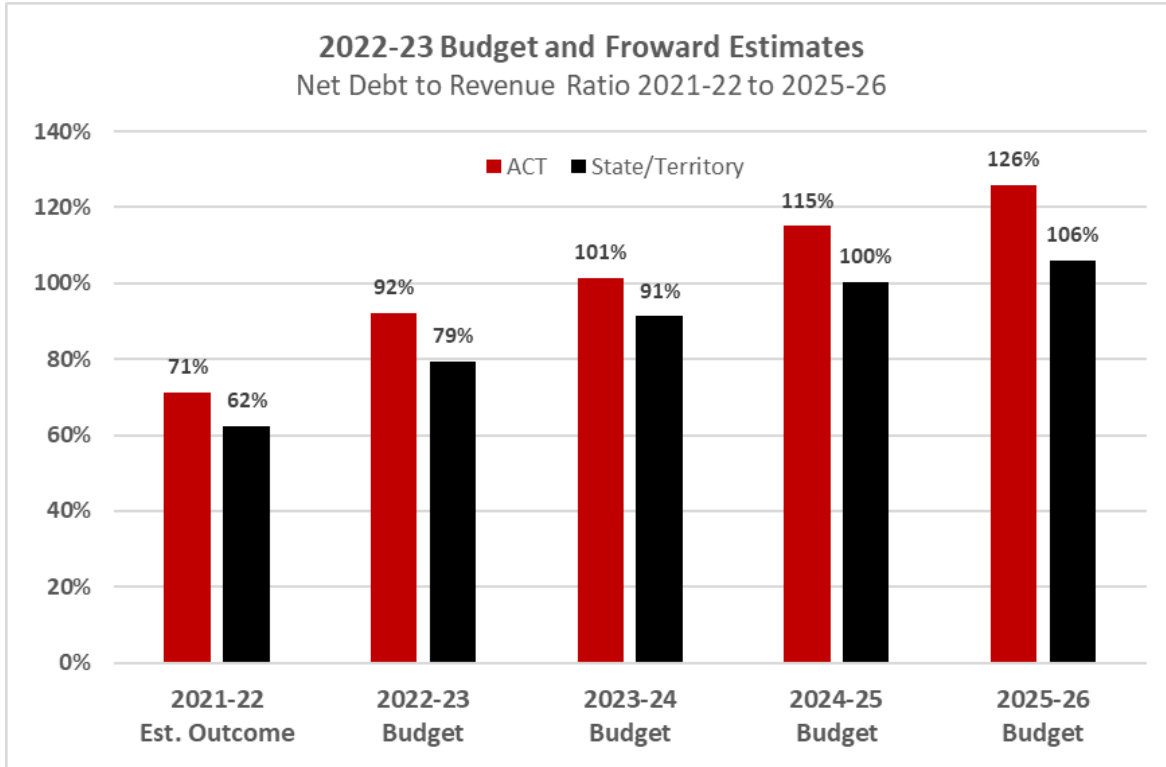
Source: 2022-23 Budget Papers; respective States and Territories.

Light Rail – Stage 1

❖Total commitment under the Public Private Partnership - $1.649 billion

❖Benefit to Cost Ratio – 1.2; Alternative (2.4); Auditor-General's Report 0.49

❖Impact on operating budget ~$60 million per annum (2018-19 BP3; Page 348)

Table B.1: Public Private Partnership Impact – Light Rail – Stage 1[1]

	2018-19 Financial Year $'000	2019-20 Financial Year $'000	2020-21 Financial Year $'000	2021-22 Financial Year $'000
Headline Net Operating Balance (HNOB) Impact				
Maintenance/Operating Costs	-21,216	-25,722	-26,172	-27,294
Interest	-15,922	-18,901	-18,275	-17,664
Depreciation	-10,559	-14,079	-14,079	-14,079
Total HNOB Impact	**-47,697**	**-58,702**	**-58,526**	**-59,037**
Payments to Canberra Metro				
Service Payments	-37,138	-54,269	-54,719	-55,840
Capital Contribution	-375,000	-	-	-
Total Payments	**-412,138**	**-54,269**	**-54,719**	**-55,840**

❖100% of the proceeds of sale of public housing (1,288 dwellings) applied to Light Rail - Stage 1.

Light Rail – Stage 2

❖No budget capacity for Light Rail - Stage 2

  o Capital costs will increase debt; no substantial assets for sale

  o Recurrent costs will increase deficit; or require increased taxation; or reduce expenditure on other services

❖Total Cost - ?

❖Benefit to Cost Ratio – ?

❖Impact on operating budget - ?

❖Capital expenditure in 2022-23 Budget ~$125 million

Post Script

- Light Rail project displays the well-studied characteristics of a typical mega project:

  - Early lock-in or "capture": commitment to a particular project concept at an early stage, leaving alternatives analysis weak or absent[1].

  - Principal-agent problems, rent-seeking behaviour, and optimism bias[2].

  - Convergence of technological, economic, political and aesthetic interests – the "four sublimes" of mega projects[3,4].

1. Cantarelli C C, Flyvbjerg B, van Wee B, Molin E J E; *Lock-in and Its Influence on the Project Performance of Large-Scale Transportation Infrastructure Projects: Investigating the Way in Which Lock-in Can Emerge and Affect Cost Overruns*; Environment and Planning B: Planning and Design, vol. 37, 2010.

2. Stiglitz J; *Principal and Agent*; in Eatwell J, Milgate M, Newman P; eds., The New Palgrave: Allocation, Information and Markets; 1989 (New York: W. W. Norton).

3. Frick K T; *The Cost of the Technological Sublime: Daring Ingenuity and the New San Francisco-Oakland Bay Bridge*; in Priemus H, Flyvbjerg B, van Wee B, eds., Decision Making On Mega-Projects: Cost–benefit Analysis, Planning, and Innovation (Cheltenham, UK and Northamton, MA, USA: Edward Elgar); 2008, pp. 239-262.

4. Flyvbjerg B; (Ed.); *Megaproject planning and management: Essential readings*; Cheltenham, UK: Edward Elgar; 2014.