

# Final Business Case Evaluation Summary

## Parke Special Activation Precinct



March 2022

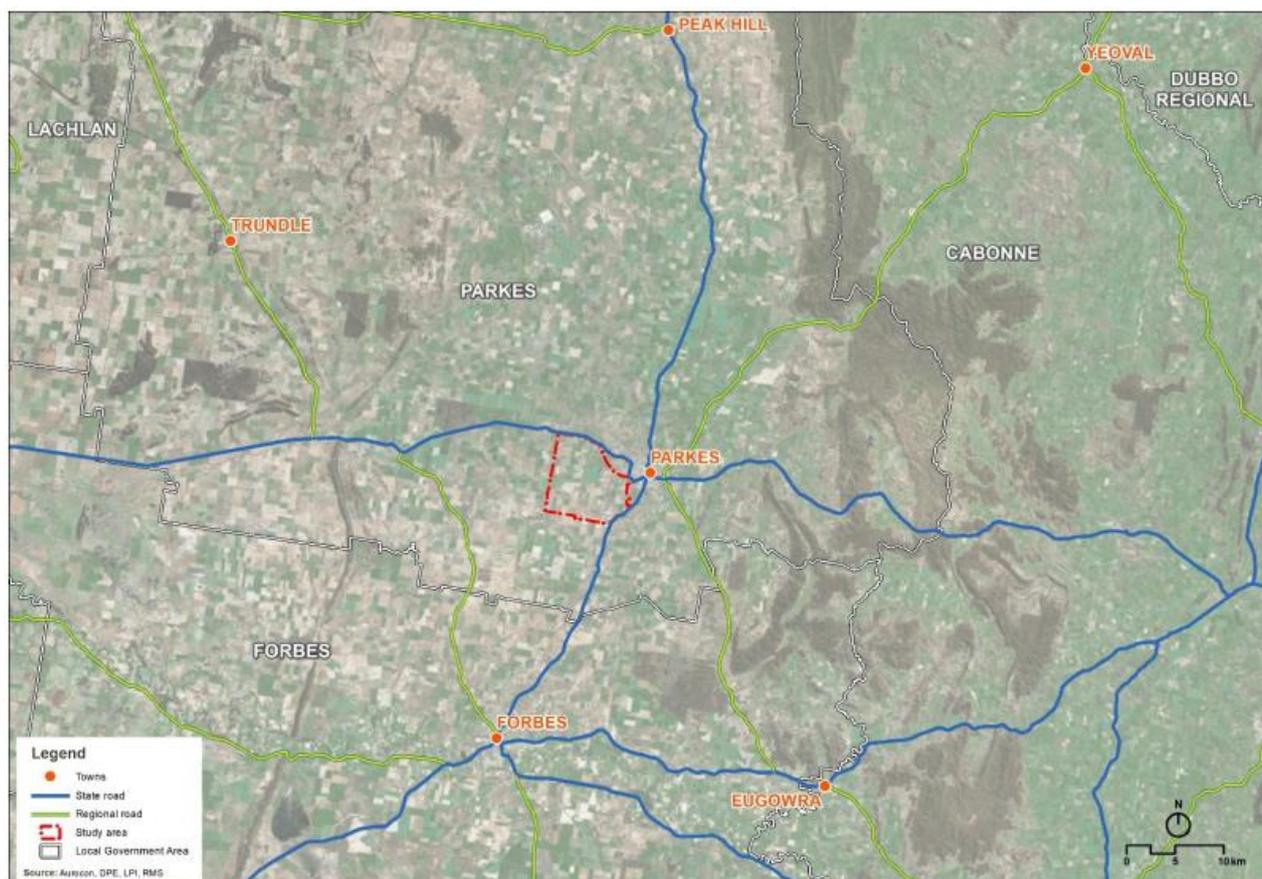
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## About this report

Parkes, located approximately 350km west of Sydney, is positioned at the intersection of the Inland Rail line, the East West Rail Line and the North South Newell Highway. The proposed Parkes Special Activation Precinct (SAP) is centred on the existing Parkes National Freight and Logistics Hub, west of the Parkes township. The site covers an area of approximately 4800ha, as shown below in **Figure 1**. Stage 1 of Parkes SAP is intended to activate approximately 1000ha (approximately 1/5<sup>th</sup> of the SAP master plan area), focused on the land adjoining the existing Brolgan Road, the proposed New Coopers Road and existing London Road.

**Figure 1: Parkes SAP location**



Source: Aurecon 2019, *Parkes Special Activation Precinct – Infrastructure and Transport Evaluation Report*.

The final business case for Stage 1 of the Parkes SAP was prepared by the Department of Planning, Industry and Environment (DPIE) in 2019. This business case summary has been prepared by Infrastructure NSW, the NSW Government's independent infrastructure advisory agency.

## Strategic context

### SAP Program

SAPs are dedicated areas in regional NSW that have been identified by the NSW Government to create jobs, attract business and investors and drive economic development by maximising benefits from the Inland Rail. The establishment of the SAP program was announced alongside the release of the *20-Year Economic Vision for Regional NSW*.<sup>1</sup> and will be funded through the \$4.2 billion Snowy Hydro Legacy Fund.

SAPs are unique to regional NSW because they bring together planning and industry levers in line with the competitive advantages and economic strengths of each area and have the potential to harness support from all levels of government. There are specifically 5 key components of a SAP:

- **Streamlined planning** – faster and simplified planning and approval processes resulting in shorter application and approval timelines for businesses and investors.
- **Infrastructure investment** – tailored infrastructure investment to support local needs including roads and utilities such as water, electricity, stormwater, waste management and digital connectivity.
- **Government-led studies** – site master planning and technical studies to identify infrastructure needs and opportunities for industry specialisation, and ensure land is used in the most effective and valuable way.
- **Government-led development** – activation of land by the Government to ensure positive social and economic outcomes are achieved in the SAP.
- **Business concierge** – support services to help businesses establish and expand in the SAP.

### NSW Government commitment

Parkes was announced as the first SAP by the NSW Government in July 2018.

### Alignment to government strategic plans

The Parkes SAP either contributes or aligns with the objectives and visions of many state-wide and regional government strategies and plans. Some of these strategies include the *Mid-Lachlan Regional Economic Development Strategy (REDS)*<sup>2</sup>, the *Central West and Orana Plan 2036*<sup>3</sup>, the *20-year Vision for Regional NSW*<sup>4</sup> and the *State Infrastructure Strategy (SIS)*<sup>5</sup>.

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<sup>1</sup> NSW Government 2018, *A 20-Year Economic Vision for Regional NSW*

<sup>2</sup> NSW Government 2020, *Mid-Lachlan Regional Economic Development Strategy (REDS)*.

<sup>3</sup> Department of Planning, Industry and Environment 2017, *Central West and Orana Plan 2036*.

<sup>4</sup> NSW Government 2018, *A 20-year Vision for Regional NSW*.

<sup>5</sup> Infrastructure NSW 2018, *State Infrastructure Strategy 2018-2023: Building Momentum*.

## Project need

Government intervention is required in Parkes to address and overcome existing challenges and barriers to investment to attract investment conducive to supporting existing and new businesses' growth. Key challenges include:

- **Existing overly complex and lengthy regional NSW planning processes**, needing to be streamlined to stimulate regional development and improve the lives of regional communities as identified in the *Standing Committee on State Development Regional Planning Process in NSW*. The existing planning process typically causes significant delays to proposed investments, particularly for high value development approvals, with average times required to receive a determination ranging between 185 days and 346 days depending on the value of the investments. Consequent costs to businesses, associated with lack of certainty regarding development approvals outcomes, represent a significant constraint to business establishment and expansion in regional NSW, thereby discounting the attractiveness of regional NSW as an investment location.
- **Lack of access to suitably zoned industrial land services with enabling infrastructure.** While businesses are prepared to pay connection fees from shared infrastructure to their on-site facilities, the cost of funding road strengthening and/or extension of utilities, transport and digital connectivity and/or other site-specific infrastructure to reach their sites is a significant barrier to establishment compared to better-serviced metropolitan areas. This leads to creating a strong disincentive to be the first mover investor, enhanced with the need as applicable to purchase sufficient land to create buffer zones.

In addition to promoting Parkes' attractiveness to investors, addressing the above constraints to businesses' development and expansion will also help leverage economic opportunities associated with its strategic location at the crossroads of the Brisbane to Melbourne Inland Rail corridor and the existing east-west Sydney to Perth / Adelaide rail corridor, by:

- building on regional's industry specialisations in agriculture and freight and logistics
- exploring opportunities to activate Parkes' manufacturing and renewable energy industries.

This will lead to a diversification of the Parkes industry base to reduce its exposure to boom and bust economic cycles and increase the region's self sufficiency.

## Project objectives and design

### Objectives

The project has the following strategic objectives:

- Increase regional economic development.
- Create jobs in Parkes and the Central West.
- Improve environmental outcomes, for example reducing pollution and waste, using resources more efficiently, preserving and protecting biodiversity, recycling and reusing waste.
- Promote industry clustering.
- Reduce red tape in planning and development
- Increase industry investment.
- Increase business establishment and growth.

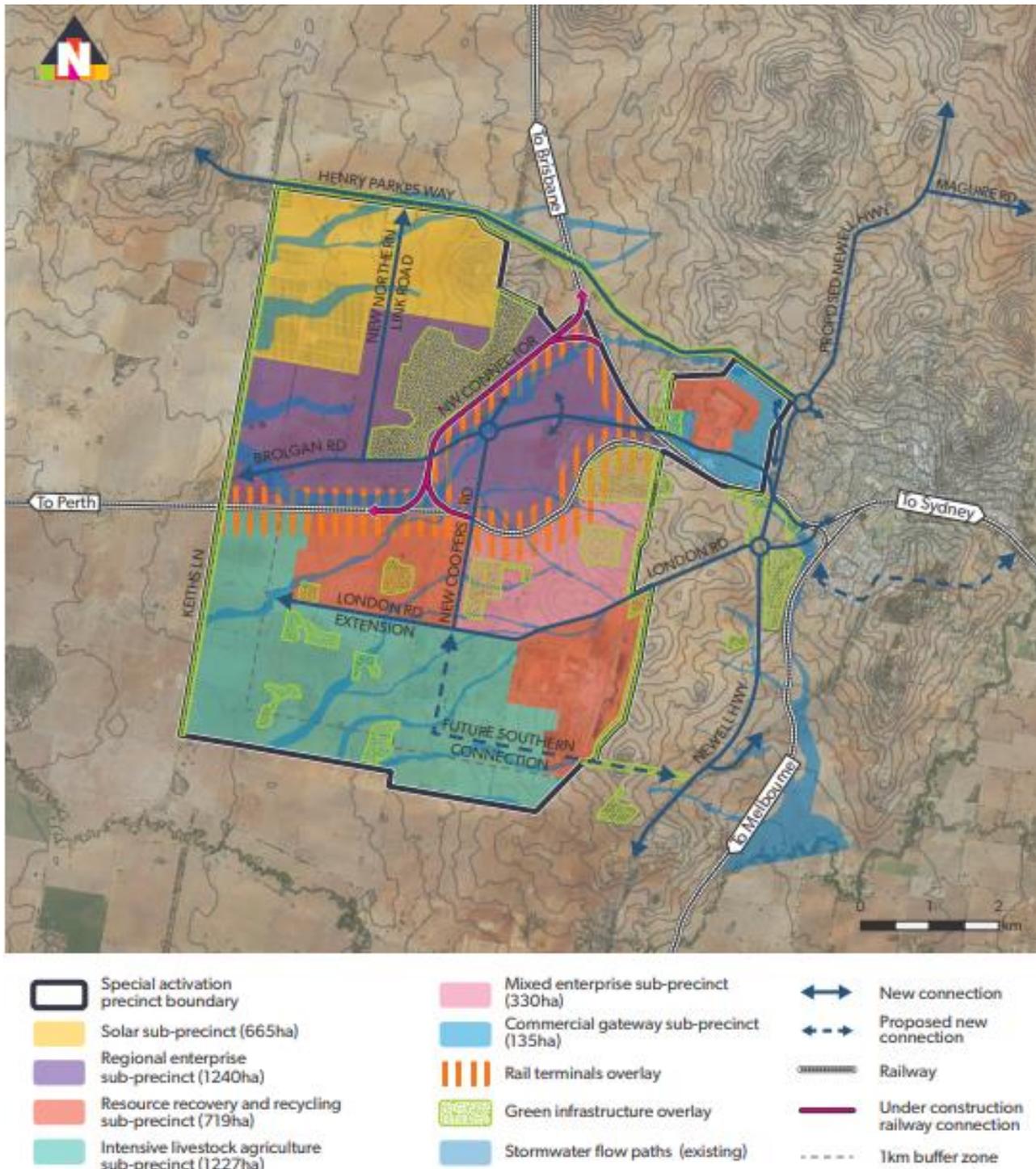
### Design

The project's preferred option at the time the business case was reviewed includes the following key elements to support the development of Parkes SAP:

- Minor scope reconstruction of Brolgan Road to accommodate B-Triple freight vehicles at existing flood immunity levels.
- Construction of Coopers Road to accommodate B-Triple freight vehicles at existing flood immunity levels.
- Construction of a new at-grade level crossing along Coopers Road.
- Construction of 1 new intersection along Brolgan Road.
- Construction of streetlights only at the new Brolgan Road / new Coopers Road intersection.
- Construction of 5 stormwater basins (adjacent to Coopers Road).
- Installation of gas, water, communication and sewer services.
- Extension of overhead electricity network on Brolgan Road.
- Construction of a new 100 MVA substation and water reservoir.

The Parkes SAP Draft Master Plan is shown below in Figure 2. There are 6 sub-precincts within the SAP, identified based on stakeholder consultation to support increased industry clustering and economic activity.

Figure 2: Parkes SAP Draft Master Plan



Source: Department of Planning Industry and Environment 2019, Parkes SAP Draft Master Plan.

## Options identification and assessment

An iterative process, outlined in Figure 3, was used to develop project options for the Parkes SAP based on close interaction with stakeholders.

**Figure 3: Options development process**



Source: Department of Planning, Industry and Environment 2019, Parkes SAP Final Business Case.

Key components of this process included:

- **Base case definition**, taking into account existing programmed and funded initiatives and regional investment attraction activities, under the assumption that there would be no changes to the planning processes.
- **Development of a non-infrastructure solution**, building on the base case whilst assuming fast track planning, implementation of government led studies and streamlined investment attraction approvals process.
- **Development of three broad infrastructure solutions** building on the above whilst including a shorter planning approval process and a streamlined investment attraction approval process:
  - **Option C** - development of the full 4800ha precinct and delivery of all enabling infrastructure types required to achieve the vision and aspirations in the Parkes SAP Master Plan. The vision and aspirations of the master plan are expected to be realised within a 40-50 year time period.
  - **Option D** – development of the Parkes SAP Stage 1 which includes land in the vicinity of Brolgan Road, New Coopers Road and London Road, and delivery of all enabling infrastructure types as per Option C. Option D activates approximately 1400 hectares of the precinct which is sufficient for a 20-30 year time period.
  - **Option E** – development of the land adjoining Brolgan Road and New Coopers Road and delivery of all enabling infrastructure types as per Option C to activate approximately 1000 hectares of the precinct. Option E activates sufficient land for approximately 20 years.
- **Value engineering of infrastructure solutions**, consisting of identifying alternative delivery solutions for Stage 1 of the project and leading to the development of 5 further options (options F to J), aiming at reducing costs while maintaining or increasing benefits, maximising existing investments in the precinct, and managing land take-up.

**Shortlisting of solutions**, with 6 out of the 10 project options being selected for further assessment in the Cost Benefit Analysis (CBA), including base case, non-infrastructure solution, all 3 infrastructure options and Option J (following a qualitative assessment of the strengths and limitations of each value-engineered option and consultation with key project stakeholders).

Option J (Infrastructure Loop - Stage 1) was assessed as the preferred option as it represents the lowest risk option to achieve the expected benefits.

## Economic evaluation

The CBA completed for the final business case followed NSW Treasury's economic appraisal guidelines and review processes, with the base case used as a point of comparison against other project options for assessment.

### Costs

Key elements of the cost estimates included:

- land acquisition costs
- construction costs, including enabling infrastructure to activate the Parkes SAP, materials and labour
- cost contingency and nominal escalation
- operating and maintenance costs over 30 years.

### Benefits

The benefits analysis, underpinned by an assessment of industry demand for land and available labour supply, focused on the economic impact of land activation at the SAP. A range of quantifiable benefits have been expected to be delivered by the project and realisable by the freight, logistics, agribusiness and general industries, including:

- producer surplus, based on incremental increases in business earnings per hectare
- labour surplus, based on an uplift in wages.

A wide range of qualitative benefits have also been identified, including:

- job creation, regional economic development and increased output
- industry agglomeration and productivity
- business expansion, innovation and investment
- reduced planning red tape
- road to rail mode shift (e.g. reduced traffic, vehicle collisions, airborne pollution)
- supply chain reliability
- educational outcomes
- reduced environmental externalities (e.g. carbon savings).

## The outcomes of the analysis

A discount rate of 7% was used to calculate the present value of future costs and benefits over a 30-year evaluation period. All costs and benefits are presented in 2018-19 dollar terms (1 July 2019).

The preferred project option has a positive Net Present Value (NPV) of \$169 million and a Benefit Cost Ratio (BCR) of 1.8, demonstrating that the project benefits are expected to exceed the costs. This supports the rationale for investment by the NSW Government.

The results from the project's CBA are summarised in Table 1.

**Table 1: Costs and benefits (\$ million, in 2018-19 dollars)**

	\$ millions, Present Value
<b>Costs</b>	
Construction costs	174.6
Maintenance costs	30.2
<b>Total costs</b>	<b>204.8</b>
<b>Benefits</b>	
Producer surplus	247.8
Labour surplus	126.2
<b>Total benefits</b>	<b>374.0</b>
<b>Outputs</b>	
NPV, \$ million	<b>169</b>
BCR	<b>1.8</b>

Source: Department of Planning, Industry and Environment 2019, Parkes SAP Final Business Case.

### Sensitivity analysis

Sensitivity tests were completed to account for risk and uncertainty in the CBA. Sensitivity test scenarios included changes to the number of projects per hectare, business earnings per hectare and initial uptake of land.

The benefits are found to be most sensitive to initial uptake assumptions, followed by business earnings. The NPV remained positive under each sensitivity scenario.

## Deliverability

The Regional Growth NSW Development Corporation will be responsible for the delivery of the Parkes SAP, in accordance with the Activation Precincts State Environmental Planning Policy (SEPP) established to develop the SAP Program.

### Timeframe

Construction activities were anticipated to commence in mid-2021 and early works commenced in September 2021. Final delivery timeframes will be known following engagement with the construction industry to determine the best delivery strategy and construction timeframes, whilst noting the D&C contracts are anticipated to be delivered concurrently.

### Governance

The Department of Regional NSW (formerly DPIE) will be the program sponsor and has the overall responsibility for delivery. Regional Growth NSW Development Corporation will manage the delivery, supported by the Parkes Technical Working Group.

Additional governance structures will be in place for the D&C contracts and once the Parkes SAP becomes operational.

### Key risks and mitigation

Major risks have been identified through a series of workshops with key stakeholders. These risks include:

- industry demand for the SAP lower than expected
- availability of skilled labour
- delays in the delivery schedule
- increases in project costs
- land acquisition.

Mitigation strategies have been identified to manage each of these risks. The *SAP Risk and Issue Management Framework* was developed for use by all SAPs and has been adopted by the Parkes SAP to record and manage project risks.

## The Infrastructure NSW view

Consistent with the NSW Government's Infrastructure Investor Assurance Framework<sup>6</sup>, Infrastructure NSW routinely assesses capital infrastructure project business cases and provides advice to Government on the efficacy of their findings. Infrastructure NSW undertook a Gate 2 Review of the Parkes SAP Final Business Case in November 2019.

Infrastructure NSW found that:

- the project objectives appear clear, and the success of the project will depend on the number and type of new businesses established in the SAP
- the options development process of assessing different scope and staging options to realise the vision of the Parkes SAP Master Plan is a sensible approach given the scale and long-term nature of the project
- the preferred option appears appropriate as it minimises cost and risk for the provision of a significant amount of serviced land
- the final business case supports the project's approach to flexible zoning within Parkes SAP.

It is noted that post Gate 2, an alternative infrastructure solution (Option K) was subsequently adopted in July 2020, through an appropriate change management procedure, to replace the Option J previously elected as the preferred option in the final business case.

Option K that is being constructed includes the following key elements to support the development of Parkes SAP:

- Full reconstruction of Brolgan Road from Newell Highway intersection to near Keith's Lane to accommodate B-Triple vehicles with 1% flood immunity.
- Construction of 2 grade separated rail crossings along Brolgan Road.
- Construction of intersections on Brolgan Road including a new roundabout on Brolgan Road with stubs catering for the reconstruction of Coopers Road to the South and a connection to the North.
- Construction of stormwater basins (adjacent to Coopers Road).
- Installation of gas, water, communication and sewer services.
- Construction of recycled water infrastructure.
- Extension of overhead electricity network on Brolgan Road.
- Construction of a new electrical substation and water reservoir.
- Provision of an onsite sewage treatment facility and associated trunk infrastructure.

The NSW Government furthermore committed, in July 2020, \$185.4 million to commence delivery of the Parkes SAP and fund enabling infrastructure.<sup>7</sup>

<sup>6</sup> Infrastructure NSW 2020, *Infrastructure Investor Assurance Framework*

<sup>7</sup> NSW Government 2020, *\$185 million to Kick-off Delivery of Parkes Special Activation Precinct*.