Submission No 115

INQUIRY INTO CROSS CITY TUNNEL

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Theme:

Summary

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30 May 2006

The Director
Joint Select Committee on the Cross City Tunnel
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Director

Cross City Tunnel – Lane Cove Tunnel Inquiry

NRMA Motoring & Services (NRMA) is pleased to make a submission in response to the expanded terms of reference of the NSW Parliament's Joint Select Committee's Inquiry into the Cross City Tunnel – Lane Cove Tunnel ("the Inquiry").

NRMA has a number of concerns regarding the Lane Cove Tunnel, which reflect discussions held with community groups, the Lane Cove Tunnel Company and the NSW Roads and Traffic Authority (RTA). Concerns held by NRMA are also reflective of correspondence received from NSW motorists and members of NRMA.

Despite these concerns we are encouraged by the fact that lessons have been learnt from the experiences of the Cross City Tunnel and the M7 Motorway and have informed decisions made by the Lane Cove Tunnel Company and the Roads and Traffic Authority (RTA) in undertaking the Lane Cove Tunnel Project. In particular, the Lane Cove Tunnel Company has actively sought the views of NRMA and has been eager to share relevant information with us.

The attached submission details our concerns regarding the Lane Cove Tunnel Project as well as our views on the appropriateness of using Private Finance Project (PFP) arrangements to fund road infrastructure. It also comments on the findings and recommendations contained in the Inquiry's First and Second Reports.

We would welcome any opportunity to appear before the Inquiry to discuss our views on these and any other relevant issues.

If you require any further comment on this issue please do not hesitate to contact Mr Brett Gale, General Manager, Public Affairs on 8222 2151.

Yours sincerely

Tony Stuart

JOINT SELECT COMMITTEE ON THE CROSS CITY TUNNEL - LANE COVE TUNNEL

Inquiry Submission No.2

June 2006

A submission to the Joint Select Committee's inquiry into the Cross City Tunnel – Lane Cove Tunnel by NRMA Motoring & Services

NRMA MOTORING + SERVICES

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Introduction

NRMA Motoring & Services (NRMA) welcomes the opportunity to make a submission in response to the expanded terms of reference of the NSW Parliament's Joint Select Committee's inquiry ("the Inquiry") into the Cross City Tunnel - Lane Cove Tunnel.

While the Inquiry's expanded terms of reference relate specifically to the role of Government agencies in tendering and negotiating the Lane Cove Tunnel Contract, this submission focuses on the likely impacts for NSW motorists and the wider road network. In particular, this submission discusses the following issues:

- community consultation undertaken in relation to the Lane Cove Tunnel;
- capacity restrictions on Epping Road;
- impacts on the local road network as a consequence of charging tolls for the use of on/off ramps to the Warringah Freeway;
- the appropriateness of toll levels; and
- the rising cost of tolls for Sydney motorists.

This submission also comments on a number of recommendations made by the Inquiry in its First and Second Reports.

This submission should be read in conjunction with our previous submissions and evidence provided to the Inquiry, including:

- NRMA's submission to the Inquiry dated 18th January 2006; and
- evidence provided to the Inquiry on the 6th April 2006 by Mr Alan Evans (President of NRMA) and Ms Wendy Machin (Director of NRMA).

NRMA has a number of concerns regarding the Lane Cove Tunnel. These concerns reflect discussions with community groups, the Lane Cove Tunnel Company and the NSW Roads and Traffic Authority (RTA). These concerns also reflect correspondence from NSW motorists and members of NRMA.

NRMA supports the Inquiry's recommendations regarding the Cross City Tunnel.

We congratulate the Joint Select Committee's First and Second Inquiry Reports. We note that many of the recommendations made by the Committee are consistent with the views and recommendations of NRMA. Accordingly, we urge the NSW Government and the RTA to work with the CrossCity Motorway to adopt the recommendations made by the Joint Select Committee.

While NRMA welcomed the 3 month half price toll for the Cross City Tunnel and the reversal of some of the relevant traffic measures we believe that more can be done to maximise the use of the tunnel and improve traffic outcomes in, and around, Sydney's Eastern Suburbs and Central Business District (CBD). In particular, we urge:

- the CrossCity Motorway to announce whether it intends to raise the tolls for the Cross City Tunnel at the end of the three month half price period and, if so, what will the new tolls be. Ideally, this should be announced as soon as possible or at least before the 6th June 2006 when the half price period is due to end;
- the CrossCity Motorway not to raise its tolls from the current prices of $1.78 for each full length journey and $0.84 for each north -bound journey (exit Sir John Young Crescent Exit from the East). We believe that not increasing the toll is

justified by patronage levels reported to the Inquiry by the CEO of the CrossCity Motorway. If the toll is increased, however, we believe that it should not exceed $2.90 for each full length journey and $1.37 for each north - bound journey;

- the Government to work with the RTA and the CrossCity Motorway to reopen Sydney's local streets in, and around, the CrossCity Tunnel;
- the NSW Government establish an independent body to regulate the price and operations of toll roads in NSW. This body should also provide a consumer protection role in the same way that the Australian Competition and Consumer Commission (ACCC) is both a consumer watchdog and regulatory agency. This would bring the NSW toll road industry in line with all other Australian industries in the sense that they will be subject to regulation and consumer protection laws; and
- the NSW Government and the RTA consider the construction and pricing of any future toll roads from a network wide perspective. That is, the price of any future toll road in the Sydney metropolitan area should be set having regard to the impact on motorists assuming that they pay multiple tolls on any given journey as opposed to just one.

NRMA has had constructive dialogue with the Lane Cove Tunnel Company.

In contrast to our experience with the CrossCity Motorway, the Lane Cove Tunnel Company has sought the views of NRMA. The company has been open to considering our views and has shared relevant information with us.

We understand that the Lane Cove Tunnel Company and the RTA has undertaken community consultation regarding the Lane Cove Tunnel project. However the effectiveness of these efforts can not be known until the opening of the tunnel and associated works on the Warringah Freeway. As was evident with the Cross City Tunnel, despite the community consultation undertaken, the level of public outcry upon its opening revealed that consultation efforts were simply not effective at communicating the real impacts that it would have on motorists and local residents.

We commend the RTA and the Lane Cove Tunnel Company for undertaking community consultation. That said, as we have not been involved with them we cannot assess the effectiveness of their efforts and we are concerned about the level of community awareness in relation to a number of important issues. In particular, we have concerns that not enough motorists, both in Sydney and regional NSW, are aware of:

- that a number of the new on/off ramps will be tolled. The RTA's website makes no mention of the imposition of tolls on the additional on/off ramps nor does its document titled *Lane Cove Tunnel — Associated Road Changes*. Similarly, the lane Cove Tunnel project website contains little information regarding the tolling for both the on/off ramps and the tunnel itself.
- the current road space for general traffic on Epping Road will be reduced from 2 lanes of general traffic and a T2 lane to just 1 general traffic lane.

In order to avoid the perception that the community and motorists were not fully informed:

- The RTA and Lane Cove Tunnel Company should undertake an honest and comprehensive appraisal regarding the impact of the Lane Cove Tunnel Project

on motorists and their future access to existing free routes. The findings of this study should be effectively communicated to all motorists throughout NSW.

- The Lane Cove Tunnel Company should undertake a widespread media campaign in both metropolitan and regional NSW to fully inform the public of all the relevant traffic measures, charges and tolls and payment options. NRMA would welcome the opportunity to work with the Lane Cove Tunnel Company and the RTA to increase public awareness, and understanding, of all these issues.
- The Lane Cove Tunnel Company and the RTA should provide on their respective websites accurate pictures and descriptions of what Epping Road and the Warringah Freeway will look like upon the completion of the Tunnel and associated works. They should also provide a visual display of what motorists will experience when exiting the M2 onto Epping Road and how the opening of the Tunnel will impact the general flow of traffic as well as what motorists should do if they want to travel along Epping Road as opposed to entering the Tunnel.

In addition to the above issues NRMA understand that there remain a number of outstanding traffic concerns, particularly in local communities. We encourage the RTA and the tunnel operators to work with local residents and community groups to address these issues.

NRMA has indicated, on several occasions, our preparedness to be involved. To date this has not been taken up by either the RTA or the Lane Cove Tunnel Company.

The Lane Cove Tunnel benefits the community not just motorists.

The Lane Cove Tunnel represents a significant transfer of wealth and benefits from motorists to the community at large. To understand this it is useful to document the distribution of benefits and costs arising from the Lane Cove Tunnel.

Beneficiaries of the Lane Cove Tunnel Project include:

1. Motorists — Motorists will benefit in several ways:

- construction of a tunnel which will bypass 26 sets of traffic lights leading to decreased travel times;
- an overall addition of road space for motorists will decrease traffic congestion and facilitate a greater number of vehicles travelling either east or west via Epping Road. The Lane Cove Tunnel will effectively increase road capacity by around 50 per cent.[1]
- Construction of three additional on/off ramps on the Warringah Freeway at Falcon Street. Of these additional on/off ramps two will be tolled while one will be free.

1 Currently on Epping Road motorists have access to 2 general lanes of traffic in each direction plus a T2 (which is available for buses, taxis and cars carrying two or passengers) lane in each direction. The completion of the Lane Cove Tunnel will give motorists access to 3 westbound tunnel lanes, 2 lanes eastbound from the Lane Cove River portal to Stringybark creek, 3 lanes for 1.35 km from Stringybark Creek Westbound. And one general traffic lane on Epping Road. Accordingly road space for general traffic (i.e. not including taxis and buses) has increased from a total of 5 lanes (2.5 lanes in each direction) to a total of 7.5 lanes.

- Construction of an additional transit lane in each direction on the Gore Hill Expressway.

2. Users of public transport — buses travelling along Epping Road will benefit from the provision of a dedicated bus lane as well as the construction of a bus terminus that will take buses off the Epping Road when dropping off and picking up passengers. Increased road space for buses and less bus congestion will decrease bus journey times along Epping Road.

   It is not yet clear whether there will be additional bus services made available along Epping Road or whether the increased road space is merely a gold plating of the current bus service.

   Bus services, servicing the lower North Shore will also benefit from additional road space on the Warringah Freeway and dedicated bus lanes on the existing on/off ramp at Falcon Street.

3. The Lane Cove Tunnel Company— It appears from the *Lane Cove Tunnel Summary of Contracts* that the toll for both the Tunnel and the Warringah Freeway on/off ramps are set at a level which allows the Lane Cove Tunnel Company to not only recoup its investment but to also earn a rate of return which is commensurate with the project's level of risk. Accordingly, at June 1999 prices, the toll for the Lane Cove Tunnel will be $2.00 per trip while the cost of using the Warringah Freeway on/off ramps will be $1 per trip

4. Cyclists — Cyclists will benefit significantly at no cost to them from the provision of a continuous cycleway from Wicks Road North Ryde to Naremburn.

5. Residents along Epping Road — ignoring the potential health impacts associated with the choice of tunnel filtration systems, local residents along Epping Road as well as residents in, and around, the Lane Cove Tunnel will benefit from decrease on surface traffic as well as a program of civil works which will increase the amenity of the local area.

6. NSW Government — the NSW Government will benefit from the Lane Cove Tunnel both directly and indirectly. First, the NSW Government has already benefited from a reported once-off upfront development fee of $79,301,000 (excludes GST) by the Lane Cove Tunnel Company to the RTA.[2] Second, as detailed in the *Summary of Contracts* the NSW Government will benefit from a share of gross non-toll revenues.[3] Third, if the actual toll revenues are more than 10 percent higher than the private sector participant's forecast revenues then the RTA will receive a share of the excess toll revenue.[4] Fourth, the NSW Government will receive additional income from land-based rates, taxes and charges associated with the land that the Lane Cove Tunnel Company will lease from the Motorway Stratum Lease. Fifth, to the extent that the Lane Cove Tunnel may lead to increased efficiency for NSW businesses (especially transport businesses) the NSW Government will benefit indirectly from increased tax revenues.

2 See page 16 of the Lane Cove Tunnel: Summary of Contracts.

3 See page 31

4 See page 31

Who pays the piper?

Who will pay for the Lane Cove Tunnel? The answer to the question is clearly those motorists who use the tunnel. This is despite the fact that they already pay for the road network via a range of state and federal government taxes and charges including fuel excise, motor vehicle registration fees and stamp duties. Motorists also pay GST on new motor vehicles, petrol and fuel excise.[5]

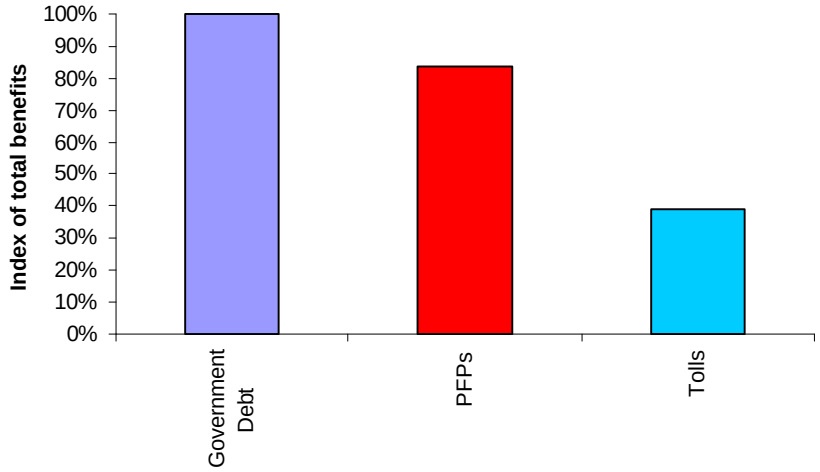
Hence, the Lane Cove Tunnel violates the economic principle of beneficiary pays. The principle of beneficiary pays is often used to justify the charging of tolls on motorways. However, it is clear that not only motorists will benefit from the Lane Cove Tunnel Project but in fact the community as whole. This is not only evident from the above analysis but also from the RTA's website.[6]

Government borrowing is superior to PFP arrangements.

NRMA believes that given that the Lane Cove Tunnel project benefits the community as whole, the most efficient way of funding it would have been via general taxation (i.e. commonwealth, state or local taxes) or via government debt which matches the costs and benefits over the life of the infrastructure asset.

A report by The Allen Consulting Group for the Property Council of Australia entitled *Funding Urban Public Infrastructure: Approaches Compared* concluded that the most efficient method of financing public infrastructure was via the use of government borrowings over the life of the asset. As detailed in the following graph the use of either PFPs or tolls results in a lower value of economy wide benefits relative to the use of Government Borrowings.

Benefits from funding social infrastructure



Source: Based on data contained in The Allen Consulting Group 2003, *Funding Urban Public Infrastructure: Approaches Compared*, Property Council of Australia, Sydney.

5 While some may argue that fuel excise and GST is collected by the Commonwealth Government it should be noted that GST receipts are returned to the State and that the Commonwealth Government funds road infrastructure projects in NSW by making available local government grants and funding for the AusLink network.

6 See www.rta.nsw.gov.au/constructionmaintenance/majorconstructionprojectssydney/lanecovetunnel/index.html?hlid=3

An alternative method of financing the Lane Cove Tunnel would have been a Public Finance Project (PFP) arrangement in which the private sector owner/financier was compensated via a shadow toll arrangement. An arrangement such as this would be superior to the current financing arrangements, given that:

- it would not involve an explicit toll and therefore would not discourage motorists from using the tolled facility. This would minimise the deadweight loss[7] arising from the imposition of an explicit toll on the users of the tunnel;
- the community as whole would pay as the private sector would be compensated from general taxes over the life of the infrastructure asset;
- the construction, financing and patronage risk would be transferred to the private sector; and
- private sector involvement would ensure innovation and cost efficiency in the delivery and maintenance of road infrastructure.

Appendix A details NRMA's current policy regarding the funding of roads. This policy reflects a strong preference for the use of debt funding to finance road infrastructure and is consistent with the policies of other motoring clubs throughout Australia as well as with the policy of the Australian Automobile Association.

Appendix B provides a brief assessment of the merits of PFP arrangements. It concludes that given the current level of public sector debt held by the NSW and Australian Governments there is little justification for the extensive private sector financing of NSW's urban arterial road network over the past decade.

The RTA has a conflict of interest.

The RTA and the NSW Government has a strong financial incentive to maximise toll revenues from the tunnel and the Warringah Freeway on/off ramps. In this regard, given that the RTA is also the regulator of privately owned motorways/toll roads in NSW it has a strong conflict of interest. The NSW Government should make provision for this conflict of interest by establishing an Independent Toll Road Commission which would undertake both a regulatory and consumer protection role, in much the same way as the ACCC.

As detailed in the *Lane Cove Tunnel: Summary of Contracts*, the RTA benefits if traffic volumes exceed the forecast revenues by more than 10 per cent:

> "Under the Motorway Stratum Lease, the Trustee must make the following rent payments to the RTA….
> - If the Company's actual toll revenue (see section 3.3.6) has been more than 10% higher than that forecast by the private sector participants' base case financial model' for the project as at 9 December 2003, a progressively increasing share of this extra toll revenue…" [8]

Given that the RTA controls the wider road network it has several ways in which it either directly or indirectly maximise toll revenues, including:

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[7] Deadweight loss refers to a loss in social welfare deriving from a policy or action that has no corresponding gain.

8 RTA 2004, *Lane Cove Tunnel: Summary of Contracts*, Sydney, P.31

- minimising road space on Epping Road and funnelling traffic into the Lane Cove Tunnel;
- reconfiguring lane markings on Epping road so that there is a less efficient use of road space;
- lack of appropriate signage at the entrance of the tunnel and on the approach to the tolled on/off ramps;
- assigning non-tolled road space to vehicles which are exempt from the toll, such as express buses;
- Reconfiguring traffic lights along Epping Road so as to unnecessarily slow the flow of traffic along the free alternative route to the Lane Cove Tunnel.

NRMA questions the extent to which the RTA has already sought to maximise toll revenues by limiting road space along Epping Road. This is primarily in relation to:

- Construction of the cycle way — it is our understanding from the Lane Cove Tunnel Company that the construction of the cycle way along Epping Road is not only at the motorist financial expense but is also at the expense of road space. If there was not a cycleway along Epping Road there would be greater road space available for motorists who wish to avoid the tunnel and travel via the existing free route;
- Reconfiguration of lane markings on Epping Road — the Lane Cove Tunnel project will not result in a narrowing of Epping Road but in some parts there will be an effective widening of the road to allow for the cycle way. Despite this the number of traffic lanes on Epping Road will be reduced due to a reconfiguration of the lane markings and a widening of these lanes. NRMA questions why this reconfiguration is necessary other than unnecessarily limiting road space along Epping Road and therefore funnelling traffic into the Lane Cove Tunnel.
- Dedicated bus lanes on Epping Road – by quarantining two lanes (one in each direction) of Epping Road as bus only lanes the RTA is unnecessarily limiting the total road on-surface space available to general traffic. Establishing these lanes as T2 lanes would over come this problem. Furthermore it is grossly unfair to motorists and the community at large that buses which are exempt from paying the tolls are given preference to road to space along Epping Road (as per the bus lane) as opposed to using the tunnel.

To avoid public discontent and maintain confidence in the RTA, the Minister for Roads should require the RTA to document and publish for public release its reasons for any lane reconfiguration or traffic light changes along Epping Road. Furthermore, any changes should be independently audited to ensure that they are simply not a measure for funnelling traffic into the tunnel thereby maximising toll revenue payable to the RTA.

Are the tolls set at an efficient level?

NRMA questions whether the toll for the Lane Cove Tunnel and the associated on/off ramps to the Warringah Freeway are set at a level which will maximise social welfare and ease traffic congestion in, and around, the Lane Cove Tunnel Corridor.

A reading of the RTA's website and the Summary of Contracts suggests that the purpose of undertaking the Lane Cove Tunnel Project was to reduce congestion along Epping Road and to maximise transport outcomes along the Warringah Freeway and the Lane Cove Tunnel corridor. It appears, however, that the tolls to be

charged for using the infrastructure have been calculated with little regard to optimising social benefit but instead to ensure the financial viability of the project.[9]

The role of the NSW Government is to maximise economic and social welfare for NSW as a whole. This would suggest that the tolls for the Lane Cove Tunnel should be set in relation to congestion levels and motorist's willingness to pay for improved travel times. It also suggests that tolls which are set with the overriding purpose of ensuring adequate compensation for the private sector financier are unlikely to be efficient and therefore result in a deadweight loss for society as a whole.

NRMA believes that the Government should be required to justify the toll on the grounds that it maximises social welfare for NSW residents and taxpayers.

Additional tolls will adversely impact Sydney's motorists

If motorists use the Lane Cove Tunnel twice a day it will cost them around $26 per week, in addition to existing tolls that they already pay. This means that for many motorists who travel for work from Sydney's North West to the CBD via the M2 Motorway and the Sydney Harbour Tunnel/Bridge will soon be spending around $79 per week in tolls.[10] This is an effective price increase of 49 per cent. By comparison, recent spikes in petrol prices have only increased fuel costs by around 25 per cent.

NRMA believes that the imposition of additional tolls and user charges on motorists is a significant financial burden on motorists and households. If, as claimed by many economic commentators, a 25 per cent increase in the price of fuel has had an adverse effect on the everyday spending of families and households it is without a doubt that a $26 per week increase in the cost of getting to and from work will also adversely impact households and families in Sydney's North West, particularly when they have no real public transport alternative. The difference, however, is that rising fuel prices are a global issue while the increased price of using Sydney's road network is a local problem that could be avoided if the Government chose to finance roads via alternative arrangements.

As discussed in our previous submission, NRMA believes that the construction and pricing of any future toll roads in Sydney needs to be considered from a network wide perspective. That is, the price of any future toll road in the Sydney metropolitan area should be set having regard to the impact on motorists assuming that they pay multiple tolls on any given journey as opposed to just one.

Traffic restrictions on Epping Road may be perceived to restrict the use of a fee alternative route.

[9] For example it appears that little or no consideration has been given to the merits of differential or peak/off-peak tolls. For example during peak traffic periods the toll could be set relatively high to mitigate congestion while in off-peak periods tolls could be lower as there is likely to be less or no congestion.

[10] Assumes that a toll of $2.60 per trip will apply for the Lane Cove Tunnel. See Daily Telegraph, *A $1bn tunnel that can't handle traffic*, 19 May 2006 www.dailytelegraph.news.com.au/story/0,20281,19181013-5001021,00.html

A source of widespread resistance by motorists in relation to the Cross City Tunnel has been the public perception that relevant traffic measures (such as capacity restrictions along William Street and the closing of other alternative routes) were undertaken for the overriding purpose of funnelling traffic into the Tunnel and forcing motorists to use tunnel. NRMA believes there is a risk that the Lane Cove Tunnel may suffer the same fate as the Cross City Tunnel given that:

- there is a reduction in the number general traffic lanes along Epping Road;
- the design of the road network linking the M2 Motorway to the Lane Cove Tunnel is confusing and will make it difficult for motorists to avoid entering the tunnel in favour of travelling on surface lanes along Epping Road; and
- a current proposal to install bus lanes on Victoria Road between the Gladesville Bridge and Anzac Bridge will further reduce road space on existing free routes from Western Sydney to the Lower North Shore.

In order to avoid this perception NRMA recommends that:

- the two remaining lanes on Epping Road be made general traffic lanes; and
- one of the tunnel lanes be made a T2 lane for express buses, taxis and cars with more than 2 passengers.

While such a change is likely to have a material impact on projected revenues over the life of the infrastructure it would likely result in less congestion along Epping Road once the tunnel opens. Furthermore, it would provide motorists with a greater level of choice between the existing free route on the surface of Epping Road and the tolled route via the Lane Cove Tunnel.

The imposition of tolls on the Warringah Freeway on/off ramps may have adverse traffic impacts for local traffic in surrounding suburbs

The imposition of tolls on the newly constructed on/off ramps to the Warringah Freeway is likely to cause adverse traffic impacts for several suburbs, such as Artarmon, St Leonard's and North Sydney. This is because a proportion of motorists are likely to travel the extra distance along the Warringah freeway and Gore Hill Expressway in order to exit from a non-tolled off ramp. Similarly, a proportion of motorists are more likely to enter via free on-ramp as opposed to a tolled on ramp. This is no doubt likely to cause many unintended and unforeseen consequences for local traffic in and around those suburbs serviced by free on/off ramps (such as Artarmon which is serviced by the Reserve Road on/off-ramps)

NRMA believes that this will be a significant issue for motorists and local residents in the affected suburbs. We encourage the RTA and Lane Cove Tunnel Company to work with local community groups, such as the Artarmon Progressive Association (APA), to put in place measures aimed at mitigating foreseeable traffic snarls. We do not recommend, however, that there should be extensive street closures or the application of tolls on existing on/off ramps.

Taking a first step on all cashless toll facilities

Increased traffic from the Lane Cove Tunnel is likely to exacerbate existing congestion and traffic delays on the Bradfield Highway/Warringah Freeway. Delays are likely to result given that there is currently a limited number of "e-tag only lanes"

at the northern approach to the Sydney Harbour Bridge and the Sydney Harbour Tunnel. This is likely to offset the travel time savings gained from using the Lane Cove Tunnel.

As a matter of urgency the RTA and other relevant stakeholders need to implement a strategy whereby the Sydney Harbour Tunnel and the Sydney Harbour Bridge make greater use of cashless toll facilities. This could be achieved by:

- making all but one southbound lane of the Sydney Harbour Bridge cashless upon the opening of the Lane Cove Tunnel;
- retaining one toll booth on the Sydney Harbour Tunnel with all other lanes being e-tag only;
- phasing out all toll booths over a given time period (say for 12 months).

There is, however, a wider issue to consider. Given the increasing prevalence of toll roads in Sydney the NSW Government should give serious consideration to making all toll roads cashless. This would ease congestion at toll road entry and exit points as well as to improve traffic flow. One way of achieving this would be to make all toll roads cashless at a future point in time (i.e. 12 months from announcement) and providing electronic tags at minimal or no cost to all NSW motorists. In undertaking such a strategy the RTA and other relevant stakeholders will need to:

- educate all NSW motorists of the phasing in of cash-less tolls and the phasing – out of cash toll-booths on Sydney toll roads and motorways;
- address current issues that many motorists have with the existing range of electronic tolling products. In particular, efforts need to be made to facilitate the use of electronic tolling products by infrequent and once off users of Sydney's toll roads and those who do not have credit card facilities.
- address the concerns of motorcyclists regarding the safety of the current range of e-tags.

NRMA welcomes a one month toll free period.

As experienced by the CrossCity Motorway the combination of a cashless toll and no toll free period meant that motorists were reluctant to use the tunnel. Instead motorists decided to sit in traffic chaos and increased congestion along William Street and the inner city. By contrast, the successful opening of the M7 Motorway was accompanied by a one month toll free period in which over 137,000 average daily trips were recorded. This initial toll free period also allowed Transurban to assess how many motorists already had an electronic tag.

NRMA wants to avoid a repeat of the Cross City Tunnel. We therefore welcome the decision by the Lane Cove Tunnel Company to offer a toll free period of at least one month upon the opening of both the Warringah Freeway on/off ramps and the Lane Cove Tunnel.[11] As demonstrated by the opening of the M7 this will encourage motorists to use the tunnel and allow them to make an informed choice about whether they will use the tunnel and/or the on/off ramps on a regular basis.

[11] Lane Cove Tunnel Company 2006, *Lane Cove Tunnel Announces One Month Toll-Free Period,* Media Release 25 March 2006, Sydney www.connectormotorways.com.au/index.cfm?s=68D2B471-3048-1075-630C1806A9FE7050&mrid=D3CAD693-3048-1075-63E3A4735B79AF65

Appendix A: NRMA's infrastructure funding policy

NRMA Motoring & Services' current policy position regarding the funding of road infrastructure is detailed below:

1. Road projects that will deliver social and economic benefits should be funded from existing Government revenues (i.e. taxes) and/or public sector debt in the first instance.

2. Where legitimate budgetary pressures limit the use of existing Government revenue streams other financing mechanisms, such as public sector tolls and/or shadow tolls, should be considered as a second-best option.

3. Tolls should always be set at a level that represents value for money to motorists and road users.

4. Public Private Partnership (PPP) arrangements (including privately Financed Projects (PFPs)) should only be considered where such arrangements will maximise community welfare relative to other available financing mechanisms or in circumstances where there are significant budgetary pressures and/or a limited capacity for the Government to borrow.

5. If a toll is to be imposed (regardless of whether the road is publicly or privately funded):
   a. there must be a toll-free period once the toll road is opened
   b. a free alternative route must be made available. This alternative route should have at least the same number of general traffic lanes as the existing route.
   c. Existing local roads should not be altered, closed or be subject to capacity reductions except in cases where an existing road will directly feed traffic into or out of the toll road or where it is justified on safety grounds.

6. The following conditions should be considered as requirements for private sector involvement:
   a. there must be Government control over the specification of minimum acceptable planning, design and construction standards;
   b. Governments must have genuinely considered the merits of implementing shadow tolls for the financing of the road projects;
   c. there should be adequate and effective consultation with the community over design and financing options;
   d. contractual details should be made publicly available;
   e. there should be no up-front franchise fees payable by the private sector developer, as these costs will inevitably be passed on to motorists in the form of higher tolls;
   f. there should be no road closures and funnelling of traffic on to toll roads;
   g. the toll charge should simply reflect the benefits of the private road;
   h. any increase in toll charges should be subject to regulatory pricing oversight;
   i. there should be no restrictions on public transport provision in the toll road corridor;
   j. there should be no restrictions on the ability of Government to upgrade other roads in the toll road corridor;
   k. there must be a toll-free period once the toll road is opened; and

l. toll charges for trucks should at least reflect the costs associated with pavement wear and should, therefore, be higher than the charge for passenger cars.

7. NRMA should continue to monitor the international and national situation with regards to road infrastructure funding, including technology advances.

Appendix B: Analysing the merits of private sector provision of road infrastructure

Generally speaking, the use of private sector finance arrangements to fund social infrastructure is considered to be advantageous for the following reasons:

- Private sector finance arrangements permit the development of infrastructure that could not otherwise be afforded by the government given budgetary constraints and concerns about excessive debt levels and an ageing population;
- Private sector financing of infrastructure leads to greater innovation and cost efficiencies; and
- Private sector involvement reduces the level of risk to government and taxpayers.

This section examines the merit of each of these claims. It concludes that given the current level of public sector debt held by the NSW and Australian Governments there is little justification for the extensive private sector financing of NSW's urban arterial road over the past decade.

Argument 1: PFPs allow for a greater level of infrastructure provision

It is commonly argued that PFPs permit the development of projects that could not be afforded by the government because of budgetary constraints and the danger of excessive public debt. There are two separate, but related, limbs to this argument.

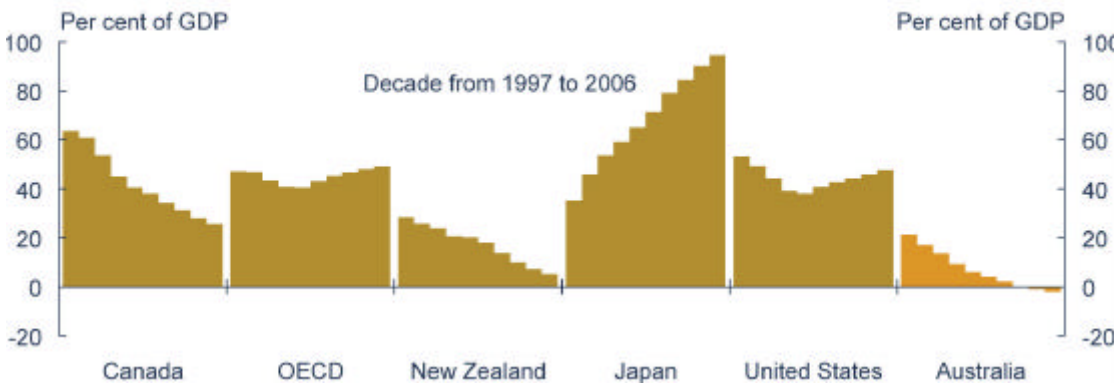
The first limb, states that it is fiscally irresponsible for the Government to borrow as our ageing population means that our capacity to finance the debt will be diminished and that borrowing results in intergenerational inequity. This claim, however, is inconsistent with the following:

– First, on 14 December 2004 the Treasurer of NSW announced that the Government had no net debt and that it was in a negative net debt position, built up from successive budget surpluses.[12] Accordingly, there is currently no significant budgetary pressure restricting either the NSW or Commonwealth Government's ability to invest in road infrastructure.

  As reflected in the graph below, policymakers throughout the OECD countries do not share Australia's and NSW's fear of government debt. Many countries throughout the OECD recognise that the responsible and strategic use of government debt to finance long term investments in social infrastructure can facilitate greater productivity and improved economic and social development.

[12] Hon Michael Egan MLC 2004, *The Carr Government's New Fiscal Strategy: A Plan for a Secure Future*, Media Release 14v December 2004, www.treasury.nsw.gov.au/aboutofm/strategy.pdf.

Figure B.1 Net Government Debt as a proportion of GDP (selected OECD Countries)



Source: Australian Government 2006, Budget Overview, Canberra www.budget.gov.au/2005-06/overview/html/overview_07.htm

Similarly, corporate Australia realises that the strategic use of debt can maximise outcomes for shareholders and investors. On average, Australian companies listed in the S&P/ASX 200 have a debt to total assets ratio (calculated by dividing long term debt by the sum of long term debt and total equity) of approximately 30 per cent. Companies specialising in the ownership and management of infrastructure assets, such as toll roads, have a higher than average debt to total asset ratio. For example, as detailed in the *Lane Cove Tunnel: Summary of Contracts* the Lane Cove Tunnel Company has a debt to total assets ratio of around 67 per cent.[13] This compares to a debt to total assets ratio for the Cross City Tunnel of approximately 75 per cent. High debt to total asset ratios for companies specialising in the ownership and management of infrastructure reflects the stable revenue streams normally associated with such investments.

– Second, both the NSW and Commonwealth Governments have AAA credit ratings and can borrow funds cheaper than the private sector. As noted by the NSW Treasury in its Policy and Guideline Paper titled Private Provision of Public Infrastructure and Services:

> *A government's ability to borrow more cheaply is purely a function of its capacity to levy taxes to repay borrowings. Credit markets (rightly) perceive this coercive power as reducing the risk of their investment, and therefore willing to lend to Government at lower rates than to the private sector borrower.*[14]

– Third, regardless of Australia's ageing population the use of debt to invest in essential infrastructure that has a benefit cost ratio of greater than one will grow the economy and increase economic wellbeing. Debt financing of road projects where benefits exceed the costs will lead to a range of economic benefits,

[13] This is calculated from figures detailed on page 2 of the *Lane Cove Tunnel: Summary of Contracts* which states that:

> *"the project is being funded, designed and built and will be maintained by a private sector group, the Lane Cove Tunnel Company Consortium backed by $542.8 million of equity investments and $1142 million of debt finance…"*

[14] NSW Treasury 2002, *Private Provision of Public Infrastructure and Service: Policy and Guidelines Paper*, Sydney P. 2.

including productivity gains and decreased accident and pollution costs. The net effect of these benefits will be to grow the economy and better enable future generations to service and pay-off the debt.

– Fourth, the use of debt to finance long lived infrastructure assets, such as roads, results in a more equitable distribution of costs and benefits across current and future generations. As noted by the Allen Consulting Group:

> *Debt is sometimes viewed as a tax upon the future. Long-term government borrowing raised today is paid for by future generations of taxpayers. They are lumped with higher taxes and the distortions that come with it. However, this is less straightforward where additional debt is offset by an increase in useful public infrastructure (an asset). In such a case, debt financing can ensure a reasonable matching of benefits and costs over time, which is consistent with intergenerational equity*[15]*.*

The second limb to this argument is that Governments have many competing demands on its limited budget and that additional or improved roads must necessarily come at a cost of reduced funding for other government services, such as public hospitals, schools or public transport. This, however, is nothing new and is not a problem limited to the provision of government services.

The answer to this problem, however, is not to outsource the provision of road infrastructure to the private sector at a greater cost to the wider community, but instead to invest in the range of public sector projects that will result in the greatest net benefit to taxpayers and the community. That is, to undertake those projects with the highest benefit - cost ratios regardless of whether they are related to education, health or transport.

Argument 2: Private sector funding arrangements allow for greater cost savings

A second argument in favour of using of PFPs to finance road infrastructure is that the provision of infrastructure by the private sector leads to cost savings and greater efficiency. It is argued that:

> *the integration of design, construction, operation and maintenance over the life of an asset, within a single project finance package can encourage maximum innovation from the private sector to improve the design and performance of infrastructure and reduce its whole of life costs. Innovation will be supported by the Government specifying what it wants in terms of outputs – the services that the asset is to provide – rather than inputs. A whole of life approach to the assets delivery can also ensure that it is fully maintained throughout its life, which is not always the case under direct Government Management, where maintenance needs are frequently subordinated to other priorities.*

While there is little doubt that private sector involvement in the provision of public infrastructure projects can lead to innovative outcomes and cost savings there is no evidence to suggest that better outcomes are achieved from either a single private finance arrangement or a whole of life approach. Research into whether the use of

[15] The Allen Consulting Group 2003, *Funding Urban Public Infrastructure: Approaches Compared*, Property Council of Australia, Sydney p.59

private sector finance in the UK's National Health System (NHS) has resulted in superior outcomes has, to date, been inconclusive.

Analysis of the relative performance of the private and public sector in different phases of infrastructure provision suggests that, in most cases, the private sector will be most efficient in the construction phase but the public sector will be best equipped to handle the risks associated with ownership. With respect to the operation of public infrastructure the analysis suggests that a mixture in which core operations are undertaken by the public sectors owner with peripheral operations being contracted out may be optimal.

This suggests that an optimal arrangement for the provision and maintenance of public infrastructure is one where the asset is financed by the public sector but there is private sector engagement via the competitive tendering of contracts for construction and the operation of non-core activities. In fact, Governments throughout Australia are adept at achieving considerable cost saving through the competitive tendering of contracts (contracts range from construction contracts to operational contracts). As noted by Professor John Quiggin:

> *"There is little doubt that a fixed price contract is more efficient than the old method of construction by day labour. However, governments have realised these cost savings for many years by putting construction projects such as roads out to competitive tender. Once an infrastructure project such as a road has been built, public ownership is cheaper than private. This is because the main cost associated with ownership is the riskiness of returns. The public sector with its large and diverse portfolio of assets is much better placed to bear these risks than is any private sector corporation. This is reflected in the 'equity premium' between the rate of return demanded by equity investors in private corporations and the bond rate at which governments can borrow."*[16]

Argument3: Private sector financing reduces risk.

It is often argued that PFP arrangements alleviate the public sector of the significant risks associated with constructing and operating infrastructure. There is now a growing body of evidence suggesting that while the private sector may be well placed to manage the risks of road construction it is not as well placed as the public sector to manage the operational risks associated with road infrastructure.

First, the public good characteristics of roads make it virtually impossible for Government to avoid the risk associated with its provision. As noted by Larcombe and Fitzgerald:

> *the use of private funds as against public funds increases the level of contingent liability exposure when service contracts fail. As the Sydney Airport Rail Link contract (New Southern Railway) demonstrates, when essential services provided by the private sector fail, the public sector is forced to act as guarantor. The public sector risk can be greater as the ability to directly manage the risk is reduced.*
>
> *The New Southern Railway linking central Sydney CBD with Kingsford Smith Airport shows that government must continue to underpin major infrastructure projects even if they are run by the private sector. Professor Bob Walker has estimated that in the case of the Sydney Airport Rail Link, the private sector stood to make a 23*

[16] John Quiggin 1994, *Public pays price for private infrastructure*, The Age 22 November 1994, www.uq.edu.au/economics/johnquiggin/news94/infrastructureAge9411.html

per cent rate of return despite incurring minimal risks. On the other hand, the NSW government incurred construction and volume risks, contributed most funding, and may only break even after 23 years and at best earn only 2 per cent pa on its investment.[17]

Second, Government and its various agencies control the wider road network. This means that Government and its agencies are better placed to manage and influence traffic flows. This is important because, as demonstrated by the Cross City Tunnel, traffic flow is the main risk faced by providers of road infrastructure. Unlike the private sector, Governments are able to influence and manage the supply of alternative routes and the available public transport options. This is clearly obvious in relation to the Cross City Tunnel, where the private sector operator required the Government to undertake road alterations limiting alternative access routes and to encourage use of the toll road.

[17] Larcombe G and Fitzgerald P 2004, *The Myth of PPPs*, The Evatt Foundation, http://evatt.labor.net.au/publications/papers/117.html