

## **INQUIRY INTO CROSS CITY TUNNEL**

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Theme:

Summary

18 January 2006

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

Re: Cross City Tunnel Inquiry

NRMA Motoring & Services is pleased to be able to make a submission to the NSW Parliament's Joint Select Committee's Cross City Tunnel Inquiry.

Tolled motorways, such as the Cross City Tunnel are becoming an increasingly important part of Sydney's road network. Accordingly, an inquiry examining a range of public policy issues in relation to the financing, contracting, construction and operation of tolled motorways is both timely and necessary.

The NSW Government's willingness to adopt the recommendations of the Richmond Review: Review of Future Provision of Motorways in NSW shows that it has already learnt a number of important lessons from the Cross City Tunnel experience. Notwithstanding this, NRMA Motoring & Services believes that the Government should do more in relation to reviewing the appropriateness of alterations to the local road network and encouraging the operators of the Cross City Tunnel to reduce the toll. We also recommend that the NSW Government:

- Comprehensively review its current processes for undertaking community consultation and communication in relation to the design, construction and operation of road infrastructure in NSW.
- Investigate the merits of shadow toll arrangements for the purpose of financing the future provision of tolled motorways in NSW.
- Consider the merits of establishing an independent road pricing and regulatory tribunal to provide regulatory oversight in relation to the pricing of, and access to, NSW's motorways.

NRMA Motoring & Services would welcome the opportunity to present its submission to the Inquiry.

If you require any further information regarding this issue please do not hesitate to contact Mr Brett Gale, General Manager, Public Affairs on (02) 8222 2151.

Yours sincerely

Peter Steele  
Deputy CEO & General Manager, Member Value

# JOINT SELECT COMMITTEE ON THE CROSS CITY TUNNEL

## Inquiry Submission

January 2006

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



*helping people*

## Introduction

NRMA Motoring & Services welcomes this opportunity to make a submission to the NSW Parliament's Joint Select Committee's inquiry ("the Inquiry") into the Cross City Tunnel (also referred to as the tunnel). The Inquiry is of interest to NRMA Motoring & Services as many of our members have expressed concerns about the level of community consultation undertaken by the Government and the Roads and Traffic Authority (RTA) and the contractual arrangements relating to the Cross City Tunnel. NRMA Motoring & Services also has concerns about a number of wider public policy issues relevant to the Inquiry.

The Inquiry's terms of reference requires the Joint Select Committee to consider a number of specific issues relating to the role of various government agencies and the relevant contractual arrangements relating to the design, construction and operation of the Cross City Tunnel. While this submission addresses a number of the Inquiry's terms of reference it also addresses a number of issues that have implications for policy makers and the future provision of toll roads in NSW. These issues include:

- Whether the level of public consultation undertaken by the Government was sufficient?
- Do the contractual terms relating to the construction and operation of the tunnel maximise community welfare?
- Are road closures in the interest of motorists or the general public?
- Does the Cross City Tunnel achieve the Government's objectives of reducing congestion in Sydney's central business district (CBD)?
- Does the toll represent value for money for motorists?

## Community consultation was insufficient/ineffective

As detailed in Professor David Richmond's Review of Future Provision of Motorways in NSW, public dialogue and formal consultation and communication processes in relation to the design, construction and operation of the Cross City Tunnel took place over a prolonged period.<sup>1</sup> Despite this, the completion and subsequent opening of the tunnel highlighted that the level of community consultation and communication undertaken was either insufficient or ineffective. Accordingly, there is a high level of public cynicism regarding, not only, the contractual terms regarding the construction and operation of the Cross City Tunnel but also the future provision of tolled motorways in NSW.

The Cross City Tunnel experience demonstrates that public relations is no substitute for effective community engagement. Undertaking large infrastructure projects, such as the construction and operation of a motorway, requires the Government (including Government agencies) and relevant private sector stakeholders to do more than simply publish glossy brochures, establish websites and conduct, what are often perceived to be token, community forums. Instead, what is required is a process whereby the community is engaged and, to the greatest extent possible, widespread community views and preferences are incorporated into the project. It is important that consultation involve the entire community not just the noisy minority. Current processes clearly do not do this.

NRMA Motoring & Services, therefore, advocates that the Government comprehensively review its current processes for undertaking community consultation and communication. Where necessary, Government should establish new processes whereby the community

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<sup>1</sup> Infrastructure Implementation Group 2005, *Review of Future Provision of Motorways in NSW*, Sydney, Pp. 31-32.

is engaged throughout the entire period and that community views are sought in relation to project design, construction and where relevant ongoing operation.

## Government needs to address ongoing community concerns

NRMA Motoring & Services believes that the Government has learnt a number of important lessons from the Cross City Tunnel experience. This is evident from the Government's willingness to accept the recommendations of the Richmond Review: Review of Future Provision of Motorways in NSW. Notwithstanding this there are a number of ongoing issues that have arisen from the opening of the Cross City Tunnel that still need to be addressed. These include:

**Alterations to local roads** — this is perhaps the most controversial issue relating to the tunnel. Road closures and alterations to local public streets have caused traffic chaos in Sydney's eastern suburbs. Members of NRMA Motoring & Services have expressed the view that many of the 71 changes to the local road network were not in the interest of motorists but mainly for the profit motives of the tunnel operators. According to a telephone survey, conducted by NRMA Motoring & Services and involving more than 300 motorists living close to the Cross City Tunnel, approximately 8 out of 10 respondents opposed changes to both William and Palmer Streets. Motorists also perceive the road alterations as limiting their ability to take viable alternative routes into, and across, Sydney's CBD and surrounding areas.<sup>2</sup>

**The toll and associated fees** — motorists perceive that the toll (set at \$3.56 for the full length journey) and associated fees do not represent value for money. Motorists have expressed the view that the charges allow the private operator to earn exorbitant profits at the expense of motorists and tax payers. A telephone survey of motorists living in the eastern suburbs and inner west close to the Cross City Tunnel found that:

- 88% of respondents oppose the \$3.30 registration fee to apply for a temporary 1-7 day pass;
- 84% of respondents oppose the \$1.60 administration fee charged on top of every trip using the 1-7 day pass.
- 78% felt the \$3.56 toll indexed to increase 4 times a year was unfair.<sup>3</sup>

**A cashless tunnel** — motorists have expressed concern in relation to the lack of a cash payment option. In particular, arrangements for those motorists who only use the tunnel occasionally and do not have a tag are perceived to be confusing, cumbersome and not user friendly. NRMA Motoring & Services' survey of motorists revealed that 30 per cent of motorists across NSW and 41 per cent in rural areas were unaware that cash tolls are to be phased out over time.<sup>4</sup> NRMA Motoring & Services has lobbied strongly to protect the interests of country motorists and casual tunnel users. In this regard NRMA calls on the RTA to increase the time period in which users without a tag or pass are required to register for a pass. The time period of 24 hours for such notification should be increased to 72 hours.

**The ownership of the tunnel** — members also expressed the view that the private ownership of toll roads is inappropriate and not in the interests of taxpayers. Research conducted by NRMA Motoring & Services shows that motorists overwhelmingly prefer government financing of road infrastructure.

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<sup>2</sup> NRMA Motoring & Services 2005, *8 out of 10 motorists oppose street closures for Cross City Tunnel*, media release 26 August 2005.

<sup>3</sup> NRMA Motoring & Services 2005, *Motorists say Cross City Tunnel fees "unfair" — NRMA survey*, media release 1 September 2005.

<sup>4</sup> Urbis Keys Young 2005, *Community Attitudes to Tollroads*, NRMA Motoring & Services, Sydney, p.21

It is paramount that the NSW Government show leadership in addressing these ongoing community concerns. Unfortunately, the Government's response to date appears to have been largely reactive.

What is required is for the Government, in partnership with the tunnel operator and the community to address key issues in relation to road closures and the public perception that the toll does not represent value-for-money. NRMA Motoring & Services believes that failure to adequately deal with these ongoing issues will result in an ongoing cost to the community over the next 30 years.

## Contractual arrangements do not appear to maximise community welfare

The 30,000 pages of documents relating to the Cross City Tunnel clearly demonstrate that the ownership and financing arrangements that underpin the design, construction and operation of the tunnel are highly complex. Notwithstanding this complexity, the contractual arrangements suited the Government as it resulted in the construction of the tunnel at 'no cost to government' and a windfall gain of \$106 million in the form of a one-off, up-front payment.

While the arrangements may have resulted in a benefit to Government, taxpayers are worse for it. This is because private finance project (PFP) arrangements are a less efficient means of financing road infrastructure relative to public sector financing. In the case of the Cross City Tunnel factors leading to increased project costs included:

**The complexity of the contractual arrangements** — the complexity of the Cross City Tunnel arrangements would have no doubt increased the transaction costs associated with its construction and operation.

**A higher cost of capital** — there is a growing body of economic analysis which suggests that the cost of capital for the private sector is higher than the rate at which the public sector can borrow.<sup>5</sup> Also, the Government is better placed to manage the risks inherent in undertaking road infrastructure projects as they control the entire road network, as opposed to just one part of it.

**Government ultimately bears the risk of road infrastructure projects** — given the public nature of road infrastructure projects and that the wider road network is owned and operated by the Government, it is unable to avoid the risks associated with additions to the road network.

**The true costs of upfront government payments** — the private sector requires a return on any upfront payments to government. This means that taxpayers not only pay for the initial upfront payment but the economic return expected by the tunnel operators for having invested these initial funds.

Contractual arrangements regarding many of the changes to the existing road network are not in the public interest. Many of the road changes are designed to funnel traffic into the tunnel and limit the viability of alternative routes into, and across, the CBD. These changes limit motorist's choice in relation to whether or not they wish to use the tunnel. Furthermore, they increase the cost associated with taking alternative routes in terms of travel time, vehicle operating costs and vehicle emissions.

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<sup>5</sup> See, for example, Quiggin, J 1996, 'Private Sector Involvement in Infrastructure Projects', *Australian Economic Review*, 96(1), Pp.51-64 and Sheil C 2005, *Public-private partnerships: Privatisation, politics & PPPs*, Evatt Foundation <http://evatt.labor.net.au/publications/papers/150.html>.

It is important that in the provision of future public infrastructure, Government realise that 'no cost to Government' does not equate to no cost to the community. While the Cross City Tunnel was constructed at 'no-cost-to-Government', taxpayers and the community have already incurred higher costs than otherwise may have been the case.

## Road closures are not in the interests of motorist or the general public

There have been 71 significant changes to local road conditions since the Cross City Tunnel opened. Many of these changes appear to be unnecessary and have led to increased traffic and congestion on local and arterial roads. For example, alterations to Sir John Young Crescent and Palmer Street mean that motorists are unable to directly access the Harbour Bridge from Sir John Young Crescent. Instead, motorists must access the Harbour Bridge via Macquarie Street while those using the Harbour Tunnel are forced to detour via Bourke Street and Cowper Wharf Roadway. These alterations have led to increased traffic congestion along several inner city streets, including Macquarie, Crown, Bourke Druitt and Cathedral Streets and Cowper Wharf Roadway.

Many of these alterations are not in the interest of motorists, local residents or the public at large. They effectively increase the cost to motorists who wish to take alternative routes to the tunnel, in terms of travel time and vehicle operating costs. They also have a detrimental impact on access to property and businesses in the areas surrounding the tunnel and travel in the CBD and surrounding areas.

Any significant road infrastructure project is always going to impact the surrounding road network and the users of those roads. Nonetheless, any alterations to the existing road network, including road closures, should as a matter of policy be minimised. This was the conclusion reached by Professor David Richmond who stated that:

*Based on recent experience, including in particular the CCT, the Review has identified a number of lessons which it recommends should be incorporated into future motorway procurement policies and processes including...*

*... as a general rule, minimising the closure and/or alteration of existing roads unless directly at the heart of the specific objectives of a project, and strengthening the capacity of the government to maintain future control over such closures and/or alterations without having to pay significant compensation.<sup>6</sup>*

NRMA Motoring & Services urges the NSW Government and the RTA to urgently review the contractual terms relating to local road closures and other alterations in order to identify cost effective ways to reverse non-essential road closures and traffic restrictions. Failure to do this will impose long term costs on motorists and the community at large. Furthermore, efforts to reopen those local streets that do not need to be closed will be a first step in rebuilding public confidence not only in the Cross City Tunnel but also the RTA's ability to enter into toll road agreements with the private sector in the interest of the community.

## The Cross City Tunnel fails to achieve its intended purpose

The overriding purpose of constructing the Cross City Tunnel was to reduce traffic congestion in the inner city and improve access to the central business district for essential traffic such as buses, taxis and delivery vehicles.

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<sup>6</sup> Infrastructure Implementation Group 2005, *Review of Future Provision of Motorways in NSW*, Sydney, p.3.

NRMA Motoring & Services questions whether this objective is being achieved. In particular, motorists are avoiding the tunnel in favour of sitting in traffic and stopping at up to 18 separate sets of traffic lights. It has been estimated that when the tunnel first opened daily patronage was less than 20,000 vehicles a day which is well short of the 90,000 vehicles forecast when construction of the tunnel was first approved.<sup>7</sup> Furthermore, it has been reported that while traffic volumes significantly increased during the toll free period, they have since declined to around 27,000.<sup>8</sup> This clearly suggests that the tunnel is not achieving its intended purpose of reducing congestion in the inner city and increasing the accessibility of the CBD for essential traffic.

NRMA Motoring & Services believe that toll roads are an inappropriate response for dealing with congestion. The problem of congestion on a given route can be mitigated by either building additional capacity (i.e. additional roads) and/or forcing users of the congested route to absorb the cost of congestion by applying a congestion tax or toll on the existing route. In the case of the Cross City Tunnel additional capacity has been built and the RTA has made a number of alterations to the existing road network to maximise its use.

The problem, however, is that despite the additional road network capacity created by the tunnel, the application of a toll and changes to the existing road network both serve to work against the goal of relieving congestion in Sydney's CBD and surrounding areas. First, the application of a toll means that motorists do not perceive the Cross City Tunnel to be a viable alternative route to the existing congested route. Second, many of the alterations to the existing road network serve to decrease network capacity by limiting the accessibility of the CBD via existing local public streets such William and Palmer Streets.

In relation to the application of a congestion tax or cordon charge, it would be inappropriate and unacceptable to introduce such a charge without a review of all motorist and road related taxes and levies (collected at both the State and Commonwealth levels). Also, NRMA Motoring & Services believe that any move to introduce a congestion tax or cordon charge would be inappropriate without major improvements in Sydney's public transport infrastructure.

## The toll does not represent value for money

Traffic volumes during and after the toll free period provides clear evidence that the current toll of \$3.56 does not represent value for money for motorists. As reported in the Sydney Morning Herald, traffic volumes during the toll free period averaged 53,000 cars per day as opposed to around 27,000 in the days following the reapplication of the toll.<sup>9</sup> Furthermore, analysis provided to the Inquiry by Mr. Christopher Wilson of Masson, Wilson Twiney Pty Ltd, reveals that the current toll could be lowered without having a negative revenue impact on the tunnel operator:

*should the toll for the main tunnel be decreased to \$2.90 for cars, the resultant additional traffic would likely result in a revenue neutral situation.*<sup>10</sup>

The Government can not alter the existing toll that applies to the Cross City Tunnel. This is despite the fact that the tunnel is serviced by, and connects to, the public road network, and that roads are essential in the same way that electricity, gas and telecommunications are essential. However, in other network industries where access to the network or

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<sup>7</sup> Darren Goodsir 2005, "Toll free move to quell Cross City Tunnel Storm", *Sydney Morning Herald*, 13 October 2005.

<sup>8</sup> Alexandra Smith 2005, "Fast trips home only good news for tunnel", *Sydney Morning Herald*, 12 December 2005.

<sup>9</sup> Ibid.

<sup>10</sup> Christopher Wilson and Darrel Bowyer 2005, *Review of Post Opening Traffic Demand for Cross City Tunnel*, <http://www.parliament.nsw.gov.au/prod/parlment/Committee.nsf/0/0785B9CEE363E8E6CA2570DC001A9E02>.



service is considered to be 'essential' regulatory arrangements apply to both pricing and access. Such arrangements are justified on the grounds that consumer safeguards should apply where the network operator may be unconstrained in its ability to lift prices or to deny access to third parties.

For example, Telstra is subject to retail price controls set by the Minister for Telecommunications, Information Technology and the Arts and are administered by the Australian Competition and Consumer Commission (ACCC). Similarly, telecommunications access arrangements are governed by Part XIC of the *Trade Practices Act 1974* and are administered by the ACCC. By contrast, in the case of the Cross City Tunnel the Government has handed over its control of the surrounding local road network and the pricing of access to the Tunnel to a private consortium which is largely unconstrained in its ability to raise prices even if it does not maximise community benefit or economic efficiency.

NRMA Motoring & Services believe that there should be some regulatory oversight in relation to the prices charged for using Sydney's Motorways. Accordingly, we believe that the NSW Government should investigate the merits of establishing an independent road pricing and regulatory tribunal to provide consumer safeguards for those using Sydney's road network.

## Alternative measures to increase traffic volumes

The Government needs to take leadership in dealing with the under-utilisation of the Cross City Tunnel and the persistence of traffic congestion in Sydney's CBD. There are a number of measures which the government may wish to consider, including:

**Reduce the toll** – analysis already presented to the Inquiry shows that a reduction in the current toll will increase traffic volumes without adversely affecting the profitability of the project. A decrease in the toll to \$2.90, or less, will not only increase patronage but will also increase consumer welfare by maximising the use of the tunnel and decrease inner city congestion. At the very least a failure to reduce the toll to \$2.90 will be a failure of the toll operator to act in the interests of motorists and potential users of the tunnel.<sup>11</sup>

**Apply a shadow toll** – this option would involve replacing the explicit toll, which currently applies, with a shadow toll. A shadow toll arrangement would mean that Government compensates the owners of the tunnel in line with patronage and that motorists would not face the current \$3.56 disincentive to use the tunnel. This option is attractive because the existing toll arrangements that serve to reduce tunnel patronage would be replaced with a payment mechanism whereby the owners of the tunnel are adequately compensated but retain the risks associated with its operation. In fact based on traffic volumes experienced during the tolls free period a shadow toll would most likely increase tunnel patronage immediately to around 53,000 vehicles per day.

That said, a shadow toll would have significant budgetary implications as it would require the Government to 'foot the bill' for motorists that use the tunnel. As a long term measure on future road projects, this does not seem unreasonable given the considerable revenues that government collects from road users in the form of motor vehicle and road related taxes and levies.

NRMA Motoring & Services strongly urge the Government to continue to push the Cross City Tunnel Operators to reduce the toll to \$2.90 per trip, or less, for the full length journey. The toll should be set at a level which maximises both traffic volumes and toll

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<sup>11</sup> Taxpayers in general will benefit from a lower toll because it will increase use of the tunnel making access into and around Sydney's CBD more accessible for essential traffic such as public buses and taxis.

revenues. Evidence suggests that the current toll of \$3.56 does not achieve either of these objectives and results in a greater cost to the community at large.

NRMA Motoring & Services also recommend that the Government consider the merits of implementing shadow tolls arrangements for the financing of any future provision of private motorways in NSW. A shadow toll will maximise the use of the road infrastructure and ensure that the private sector owners will be adequately compensated. We note, however, that there are difficulties in implementing shadow-toll arrangements and that they are likely to have budgetary implications for the State Government.