

**Submission  
No 85**

## **INQUIRY INTO ROAD TOLLING**

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**Date received:** 28 February 2017

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**Inquiry into road tolling**

**Terms of reference**

This submission is relevant to

1. a review of the tolling regimes in place on different roads and an explanation for the differences between each
2. the process for determining how tolls are set for all types of vehicles, the length of tolling concession periods, the rationale for extending these concession periods and opportunities to increase transparency for the public, particularly given the absence in some instances of any competitive process
3. how tolling contracts are negotiated and varied and opportunities to increase public scrutiny and accountability of the negotiations that take place between private tolling companies and the NSW Government
7. opportunities to increase the assurance to the public that tolling arrangements represent the fairest possible outcome
8. an examination of road tolling arrangements in overseas jurisdictions, and
9. any other related matter.

**A. Road charging not necessarily unfair**

**it is important for the Committee to clearly distinguish between road charges of a broader kind such as road congestion charges and the type of arrangements for tollroads and tolling that we have in Australia.**

In cities such as London and Stockholm, road charging has also been shown to be an effective at reducing traffic congestion by prompting drivers to shift to alternate modes such as active or public transport, car sharing, or avoiding car trips at the most congested times of day, or eliminating unnecessary travel altogether.

However, a key factor in the success of this strategy is the quality and availability of alternatives to motorways, such as integrated and effective public transport, which much of Sydney currently lacks, particularly throughout the west.

Road charging would be unfair in Sydney where there are huge tracts of the city particularly in the West that have suffered from deficient public transport for decades.

A study of road charging in London, Stockholm and Milan <sup>1</sup> showed that in all cases a robust increase of public transportation was announced and implemented in coincidence with the introduction of the charge and a substantial part of revenues are invested for sustainable mobility.

The study concluded:

*“In all cases the following trend effects, though in different measures, are demonstrated: traffic reduction and modal shift, mainly through increase of passengers of public transport. A huge pollution emission reduction happened in Milan and a relevant one in Stockholm, while the effect was negligible in London. In Stockholm and Milan also accidents reduction, and speed increase in public transportation were experienced (while in London it doesn't seem to exist a connection with accidents, while bus speed decreased). In all cases traffic reduction happened also in the area surrounding the charged one.”*

Even when polls showed citizens were not in favour when the charge was announced, after implementation the majority of citizens turned in favour.

This shows that citizens experiencing the costs and frustrations of road congestion will be open to policies that place a cost on driving but these policies must be in the context of broader sustainable public transport initiatives. However this is far from the situation in Australia where there is a record of traffic modelling companies producing false and misleading projections in order to justify tollroads and private companies influencing public policy in ways that subject to independent scrutiny.

Chris Standen<sup>2</sup> and other researchers <sup>3</sup> have convincingly argued that tollroads do not solve traffic congestion. Acceptance of road charges needs to be based on a high level of public trust and transparency. This is very different to our situation with tollroads in NSW. <sup>4</sup>

## 2.

**Tolls cannot be considered apart from tollroad companies and their role in creating transport and road policy.**

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<sup>1</sup> <https://www.unibocconi.eu/wps/wcm/connect/2a021b03-1564-473b-a6d7-4e1a7cea5d44/WP+85.pdf?MOD=AJPERES>

<sup>2</sup> <https://www.theguardian.com/commentisfree/2017/feb/27/westconnex-is-a-bad-deal-for-motorists-and-taxpayers-who-is-it-good-for>

<sup>3</sup> <https://theconversation.com/traffic-congestion-is-there-a-miracle-cure-hint-its-not-roads-42753>

<sup>4</sup> <http://www.smh.com.au/nsw/sydney-traffic-secret-westconnex-documents-show-worse-congestion-after-toll-road-20150525-gh980u.html>

In a series of stories based on extensive research, I have in a limited way investigated the role that the tollway lobby and road construction industry have played in developing the business model in which a huge amount of public funding is being spent on the Westconnex system of tollroads.<sup>5</sup>

The goal of these companies and individuals who work for them is to make profits from construction contracts and tolls. It should be of great concern that the private interests involved in promoting tollroads, some of which have failed, have developed such a grip on NSW road policy formation. In this piece, I examined how the very companies that have settled suits for false and misleading projections were invited by the NSW government to be directly involved in developing the business model on which the rationale for the ever expanding Westconnex system of tollroads depends.<sup>6</sup>

### 3.

#### **Lack of transparency around tolling arrangements**

As with most aspects of WestConnex, the NSW public has not been allowed access to any of the documents or negotiations surrounding the setting of tolls, or the contracts for the sale of tolling concessions. All but the most topline financial figures have been redacted from the WestConnex Updated Strategic Business Case.

The NSW Government privatised the government corporation responsible for building WestConnex, the Sydney Motorway Corporation (SMC), and made it immune from freedom of information requests and any responsibility for disclosing its contracts publicly.

Contracts relating to the sale and tolling arrangements are also expected to remain shielded from public scrutiny.

The private owner of WestConnex is to be granted the toll concessions until at least 2060. Tolls will also rise at the rate of at least 4% a year or CPI, whichever is higher. No rationale has been provided to the public to justify either the decades of tolls that drivers will face to use the roads, or their very high rate of increase.

A publicly funded project, WestConnex should be subject to the same level of scrutiny as any public project, and the SMC subject to the same transparency and accountability requirements as any public corporation.

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<sup>5</sup> <https://newmatilda.com/2015/02/24/man-behind-men-behind-westconnex/>  
<https://newmatilda.com/2016/05/18/tunnel-collapse-the-insider-emails-that-show-westconnex-in-a-new-light/>

<sup>6</sup> <https://newmatilda.com/2016/05/18/tunnel-collapse-the-insider-emails-that-show-westconnex-in-a-new-light/>

Without this transparency - and with profits the core focus of privatised motorways - there is a very high risk that tolling arrangements will not produce a fair outcome for the NSW public. I am also concerned about the potential inclusion of 'no compete' clauses designed to maximise the profits for the private owner, and prevent improvements or investment in competing transport networks for decades. Such clauses should be barred from tolling agreements by law.

This model of using public funds to plan and construct private tollways only emerged because of the private sector's reluctance to risk its own money on WestConnex following a series of failed Australian toll road projects. The development of the public funded model was driven by companies such as Macquarie Capital, Leightons (CIMIC) and AECOM, which directly benefit from the new model.<sup>7</sup> It is hard to see how the public interest was protected by this funding process, given the companies that helped develop it are also the ones that stand to profit from it.

#### **4. Annual toll increases**

WestConnex's tolls are to rise by the rate of 4% a year or CPI, whichever is higher. While this is in line with increases on the M2 and Eastern Distributor, it is a much higher rate of increase than the majority of other tolled roads in Sydney, including the M7, M5, Lane Cove Tunnel and Cross City Tunnel.<sup>8</sup>

No justification has ever been provided to the public around why WestConnex tolls are set to increase at such a high rate each year, or how these increases were negotiated or calculated. It appears designed merely to fund the hugely expensive cost of building the tunnelled parts of WestConnex, and to increase the attractiveness of the tolling concessions for the eventual sale of sections of the tollways to the private sector.

#### **5. Tolls charged on roads that fail to improve the road network**

In the case of WestConnex, the only independent analysis of the project's Updated Strategic Business Case found that travel time savings were not dependable, and in fact may be imperceptible or non-existent for most road users.<sup>9</sup>

Given that the combination of high tolls and small travel time savings has been cited as the key reason for the financial failure of the last four toll roads built in Australia (Sydney's Cross City Tunnel and Lane Cove Tunnel, and Brisbane's Airport Link and Clem7), it appears as though the same combination could well lead to the financial failure of WestConnex.

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<sup>7</sup> <https://newmatilda.com/2016/05/18/tunnel-collapse-the-insider-emails-that-show-westconnex-in-a-new-light/>

<sup>8</sup> <http://www.smh.com.au/nsw/westconnex-new-sydney-motorway-to-push-toll-to-11-per-trip-20150507-ggw9ky.html>

<sup>9</sup> SGS Economics & Planning, *WestConnex Business Case Review Final Report*, February 2016.

If that is the case, tolls on the WestConnex roads will fail to deliver any substantive benefit to road users, communities or taxpayers.

**In this section of my submission, I quote and endorse the submission of the Westconnex Action Group:**

*WAG notes too that all four failed toll roads above were purchased by a single corporation, Transurban, which paid a fraction of the roads' construction costs to do so. Should the same fate befall WestConnex, it is the general public that stands to lose financially, as the majority of the road's construction costs have been borne by NSW and Federal governments, using public taxpayer funds.*

*The following excerpt is taken from pp31-32 of the independent analysis referred to above, which was performed by SGS Economics & Planning on behalf of the City of Sydney:*

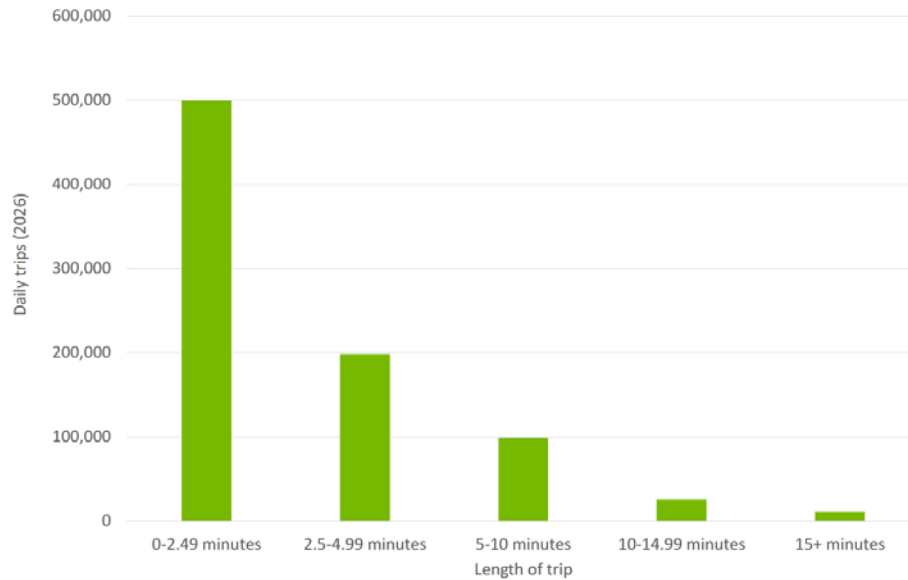
*"Travel time savings resulting from WestConnex are generated primarily during peak periods. Non-peak periods have very low travel time savings, throwing doubt over who would use the road during such periods.*

*In a review of the Lane Cove Tunnel and Cross City Tunnel, the Roads and Maritime Services (RMS) describes that "the majority of travel time savings were less than five minutes (which are often not realised and can be considered inframarginal in economic terms)" (RTA 2010). Inframarginal means that they are within the margin of error of the modelling or/and cannot be observed by road users. In the case of the Lane Cove Tunnel, when travel time savings of less than five minutes were removed from the analysis, this BCR decreased by approximately 50 per cent.*

*Using data from the Zenith Model (which produces results broadly consistent to the WRTM) the distribution of travel time savings from WestConnex was used to replicate this five minute inframarginal analysis suggested by the RMS. The data for 2026 shows that 832,000 trips gain travel time saving from WestConnex. Table 10.1 from the Updated Strategic Business Case has 788,100 trips along WestConnex and the existing M4 and M5 in 2031. In accounting for additional trips on surface roads which may gain a travel time benefit, the result from the WRTM and Zenith appear broadly consistent.*

*Figure 14 shows the number and length of daily trips on WestConnex in 2026. From a total of 831,000 trips on WestConnex in 2026, the majority (499,100 or 60 per cent) result in a travel time saving of less than 2.49 minutes. With such a short time saving for the majority of trips, there is a risk these time savings will not be discernible to motorists and in turn, that patronage forecasts will not be achieved.*

FIGURE 14. AVERAGE TRAVEL TIME SAVINGS BY NUMBER OF TRIPS WITH WESTCONNEX (2026)



*The midpoint of each time group was used to estimate the time saving and a \$45 dollar cost of time was used to estimate the travel time saving benefit. \$45 is the estimated weighted average of value of time for business, commuter, freight and other private trips in the Updated Strategic Business Case.*

*Excluding trips with a travel time saving of less than five minutes from the travel time savings would reduce the benefit from \$12.9 billion to \$5.9 billion (a 55 per cent reduction). The removal of these small travel time savings would reduce the project BCR from the recalculated 1.64 to 1.12.*

*If the same analysis is applied to only Stages 1 and 2 the travel time savings benefits are reduced by 70 per cent.”<sup>10</sup>*

University of Sydney’s Institute of Transport and Logistics Studies (ITLS) researcher, Chris Standen, has also argued that other supposed benefits of WestConnex - including making “life easier for hundreds of tradies, couriers and freight operators who rely on Sydney’s roads every day”<sup>11</sup>, and taking trucks off surface roads<sup>12</sup> - are unlikely to be realised. In a recent article for *The Guardian*, Mr Standen noted:

“[B]y increasing the competitive advantage of road freight over rail, [WestConnex] will actually encourage more trucks onto the road network. During peak times, truck operators will pay to use the tollroads. However, they

<sup>10</sup> SGS Economics & Planning, *WestConnex Business Case Review Final Report*, February 2016.

<sup>11</sup> <https://www.westconnex.com.au/about>

<sup>12</sup> <http://www.transport.nsw.gov.au/sites/default/files/b2b/media/med-rel-westconnex-delivery-authority-established.pdf>

are likely to avoid the tolls at other times, meaning more trucks on suburban streets off-peak, and at night.”<sup>13</sup>

6.

### **Toll saturation on the Sydney road network**

Roads like WestConnex, its associated extensions, and NorthConnex will all add to Sydney’s already vast and increasingly interconnected network of tollways.

In 2015, a landmark study performed by Prof David Henscher, Chinh Ho and Wen Liu from the University of Sydney’s Institute of Transport and Logistics Studies (ITLS) found that this proliferation of tolled roads will increasingly see drivers hit their financial limit when it comes to paying new tolls, and ignore tolled routes - even if they’re faster - for non-tolled alternatives.<sup>14</sup>

Prof Henscher’s study, which was the first to look at the cumulative impact of multiple tollways, stated that with nine existing tollways in place, and another five now under construction:

“The evidence suggests that many commuters in Sydney are already close to their toll budget threshold, which when reached will flatten the commuter’s willingness to pay to save extra commuting time.”<sup>15</sup>

This finding is particularly relevant to WestConnex, which by its own promotional material is reliant on creating a network of “free-flowing motorways”<sup>16</sup> to be successful, all of which are to be tolled.

The findings made by Henscher et al suggest that, with drivers fast approaching toll saturation, the benefits of this “free-flowing” network will be nowhere near as valuable as the official paraphernalia suggests, and that drivers will opt for the non-tolled roads instead - roads that are already heavily congested, and that WestConnex was supposed to relieve.

In 2015, the SMC’s chief executive Dennis Cliche confirmed that WestConnex was to trigger an overhaul of the entire toll road system across Sydney, leading to more tolls being introduced on roads that are currently toll free.<sup>17</sup> If this happens, the toll saturation effect highlighted by Henscher et al is likely to be even more pronounced,

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<sup>13</sup> <https://www.theguardian.com/commentisfree/2017/feb/27/westconnex-is-a-bad-deal-for-motorists-and-taxpayers-who-is-it-good-for>

<sup>14</sup> <http://www.smh.com.au/nsw/sydney-motorists-unwilling-to-pay-for-more-toll-roads-study-20151110-gkv5b3.html>

<sup>15</sup> Hensher DA, Ho C and Liu W 2016 'How much is too much for tolled road users: toll saturation and the implications for car commuting value of travel time savings?', Transportation Research Part A: Policy and Practice, vol.94, pp. 604-21

<sup>16</sup> <https://www.westconnex.com.au/what-westconnex>

<sup>17</sup> <http://www.smh.com.au/nsw/westconnex-to-trigger-sydney-tollroad-overhaul-20150417-1mnbze.html>



and make it even more likely that drivers will avoid tolled roads in favour of non-tolled alternatives.

## 7

### **Excessive power to private corporations**

In regards to WestCONnex, it is worrying that many of the corporations that stand to benefit from its construction and operation - including AECOM (formerly Maunsell), Macquarie Capital and CIMIC (formerly Leightons) - were invited in at the very beginning by the NSW Coalition government to help design and justify WestConnex.<sup>18</sup> Given their vested interests, it is hard to believe that the NSW public can be assured that decisions related to WestConnex, including its status as a toll road and its tolling arrangements, represent the fairest possible outcome for the public.

WAG notes as well that, as per the rest of Australia, one particular company holds what has been described by Morgan Stanley as a “meta-monopoly”<sup>19</sup> over NSW’s toll roads. Transurban currently controls 13 out of 15 toll roads across Australia,<sup>20</sup> is building NorthConnex with the help of taxpayer-funded subsidies from the Federal and NSW government of up to \$405 million each,<sup>21</sup> and has already declared an interest in buying into parts of WestConnex. This in itself should convince the committee that the current tollroad industry and tolling policies are allowing a high concentration or power over access to significant parts of the arterial road network.

Transurban is a company that has been exposed as one that pays very little tax,<sup>22</sup> makes significant political donations, and has publicly declared that “Our interest was only ever the road network, and the cash”.<sup>23</sup> It is notorious for working non-compete clauses into its toll road contracts<sup>24</sup>; for slugging drivers huge penalty fees, some of which have resulted in loss of licences, and many of which were due to innocent customer mistakes, or system errors or poor communication from Transurban.<sup>25</sup> Serious concerns have also been raised about these mistakes, and the abuses of power exercised by Transurban that have dramatic negative impacts on the lives of ordinary Australians.<sup>26</sup>

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<sup>18</sup> <https://newmatilda.com/2016/05/18/tunnel-collapse-the-insider-emails-that-show-westconnex-in-a-new-light/>

<sup>19</sup> <http://www.theage.com.au/victoria/transurban-the-making-of-a-monster-20160512-gotjm9.html>

<sup>20</sup> <http://www.smh.com.au/national/investigations/toll-giant-transurban-wants-to-charge-for-all-roads-20160513-goup2i.html>

<sup>21</sup> <https://www.transurban.com/our-operations/our-projects/northconnex>

<sup>22</sup> <http://www.michaelwest.com.au/why-transurban-says-the-taxman-can-wait/>

<sup>23</sup> <http://www.theage.com.au/victoria/transurban-the-making-of-a-monster-20160512-gotjm9.html>

<sup>24</sup> <http://www.theage.com.au/victoria/transurban-the-making-of-a-monster-20160512-gotjm9.html>

<sup>25</sup> <http://thescandal.com.au/news/transurban/transurban-a-case-for-a-senate-inquiry-31-8-2016>

<sup>26</sup> <http://www.9news.com.au/national/2016/08/31/19/47/major-toll-road-operator-under-fire-over-unpaid-fine-chasing-methods>

Transurban is also a company that has been publicly noted for its ability to outmaneuver governments during negotiations over toll roads. As former Victorian Premier Jeff Kennett told The Age: "Money, instead of going to government, is going to the private sector; that is a total waste".<sup>27</sup>

According to former NSW Auditor General Tony Harris:

"When [Transurban] leave a negotiating room nothing is left on the table, not even the Laminex. They just have this reputation for being superb negotiators at the taxpayers' expense."<sup>28</sup>

Handing such a huge amount of power over the way we live, move and work to a private company that is solely motivated by the huge profits that can be made from toll-paying drivers is no way to ensure the maximum public benefit is achieved from our transport network. It is a surefire way to lock in car dependency, particularly among those people and communities who have the least ability to move to areas that are better served by public transport, jobs, lifestyle opportunities, and more.

## 8.

### **Toll costs borne by residents least able to afford it**

Motorists on lower incomes will be the hardest hit by incoming tolls on the WestConnex motorways, especially in areas where there is poor public transport. Toll on the M4 alone, when re-introduced sometime this year, will cost regular commuters on the road over \$2,000 in tolls alone.<sup>29</sup>

This is deeply concerning, because there is evidence to suggest that commuters in western and south-western Sydney are among those least able to afford such a substantial rise in travel costs. Average incomes in western Sydney are well below the Australian average,<sup>30</sup> with some of the lowest average incomes in the country to be found along the WestConnex route.

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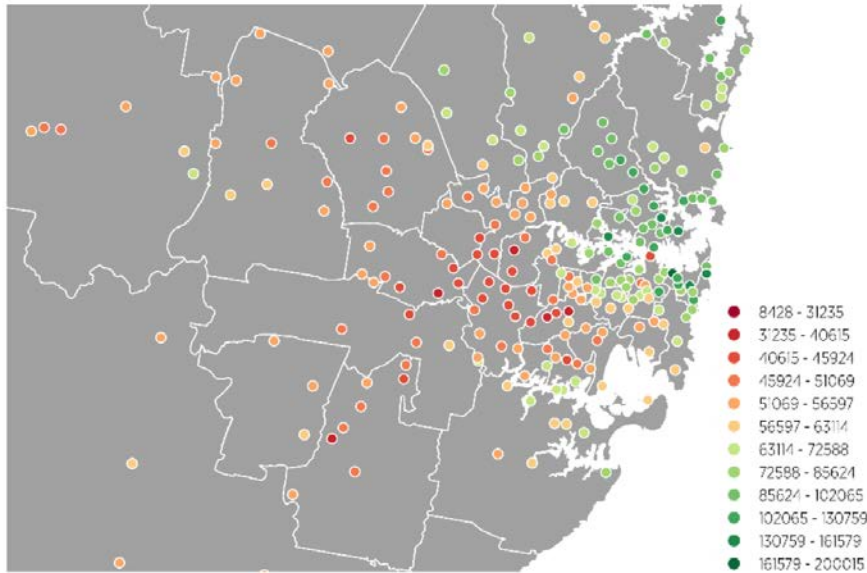
<sup>27</sup> <http://www.theage.com.au/victoria/transurban-the-making-of-a-monster-20160512-gotjm9.html>

<sup>28</sup> <http://www.theage.com.au/victoria/transurban-the-making-of-a-monster-20160512-gotjm9.html>

<sup>29</sup> <http://www.parramattasun.com.au/story/4480053/new-fees-to-take-their-toll/>

<sup>30</sup> Committee for Sydney, *Adding to the Dividend, Ending the Divide #3*, January 2017.

Figure 11. Income by postcode 2013/14



Above: Income by postcode in greater Sydney. For map source, see footnote 10.

In addition, the poor state of public transport in many parts of western Sydney means that many residents have no choice but to use the road network. In effect, the tolls charged on roads like WestConnex amount to a tax on car dependency among people with few, if any other options - and an outright poverty tax on those who are already scraping by on some of the country's lowest household incomes.

The committee should seek evidence from community transport organisations about the impact of tolls. These examples are drawn on recent discussions with people in Sydney's West. There is a very strong feeling that people are being discriminated and penalised by tolls and a lack of public transport options.

- Concern about the cost of visiting family living in Sydney's North. Cost of tolls are added to the cost of travel to work. This limits family contact.
- Parents needing to drive children to sporting activities in the weekend. The direct route would be very expensive. The must be included in cost of sport and can quickly limit the activity.
- No money available for tolls due to rising household costs.
- Students are angry that there is no safe and regular transport in the evenings across the West moving South to North and lack of a car or cost of using one limits social and extra curricular activity.
- One woman said, "When I heard about the tolls I despaired and thought 'they don't want us to get out of here.'" ( meaning the neighbourhood)

## Conclusion

There needs to be a thorough, public, and wide-ranging review of plans for an ever-growing network of tollways throughout Sydney, with a view to making serious

changes that will bring much-needed transparency to the processes by which these toll roads are planned, built, sold and operated.

These changes should also make the public benefit - including comprehensive and fully costed assessments of alternatives to tolled roads, including public and active transport - central to the equation. Otherwise, NSW will continue to see extraordinary power over the mobility, liveability and sustainability of our state increasingly placed in the hands of private operators - and arrangement that disadvantages us all, and especially those communities that will be increasingly locked into expensive, unhealthy and unsustainable car dependency.