

**Submission  
No 124**

## **INQUIRY INTO IMPACT OF THE WESTCONNEX PROJECT**

**Organisation:** NSW Government

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## **NSW Government submission**

**Public Accountability Committee**

**Inquiry into the Impact of the WestConnex Project**

August 2018

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## Introduction

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By 2056, NSW will have more than 12 million residents and Sydney will become a global city of eight million people, similar in size to London or New York. The NSW Government's *Future Transport 2056*<sup>1</sup> is an overarching strategy supported by a suite of plans to achieve a 40 year vision for our transport system.

As part of the Movement and Place Framework outlined in *Future Transport 2056*, motorways are identified as strategically significant roads that move people quickly and efficiently. That's why the NSW Government is investing in Sydney's road infrastructure and closing gaps in the motorway network.

This investment in motorways will result in thousands of cars and trucks being removed daily from local roads – returning these roads to local communities for local use – reducing congestion and improving safety. Motorways also facilitate the use of public transport – either directly by bus, or by freeing up capacity for public transport on local roads, or by connecting people more easily and efficiently to public transport hubs.

WestConnex is part of this integrated transport plan to keep Sydney moving by easing congestion, creating jobs and connecting communities. The project was a recommendation in the Infrastructure NSW *2012 State Infrastructure Strategy* and the *NSW Long Term Transport Master Plan*. This was followed by the development of a business case, which was approved by the NSW Government in August 2013<sup>2</sup>. The 2015 WestConnex Updated Strategic Business Case<sup>3</sup> then consolidated work undertaken in the original business case, with significant modelling, analysis and scope enhancements.

At more than 30 kilometres in length, including around 22 kilometres of tunnels, WestConnex comprises widening and extending the M4 (Stage 1), duplicating the M5 (Stage 2) and delivering an M4 – M5 Link (Stage 3) connecting the two motorways to provide a long overdue underground link to create a seamless free-flowing western bypass of Sydney's central business district for motorists.

It will more than double the road capacity along the M5 East corridor with the New M5 underground tunnels from Kingsgrove to the St Peters Interchange. The M4-M5 Link Mainline Tunnel will join these underground routes together to form a seamless motorway without traffic lights between the New M4 at Haberfield and the New M5 at St Peters.

WestConnex is 40% complete and as construction continues the project is creating thousands of jobs and supporting a wide variety of businesses. Currently there are 3,600 people working across WestConnex project sites daily, including 1,000 working underground, with 10,000 jobs to be created across the life of the project including hundreds of apprenticeships.

WestConnex responds to forecast growth in heavy vehicle movements across Sydney and significant population and employment growth along the M4 and M5 corridors. As one of Australia's largest transport infrastructure projects, WestConnex seeks to address the challenges that road users and the community encounter on a daily basis.

WestConnex will:

- Support Sydney's long-term economic growth with improved motorway access and connections to western Sydney and key employment hubs across the city

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<sup>1</sup> <https://future.transport.nsw.gov.au/>

<sup>2</sup> <https://www.westconnex.com.au/resources>

<sup>3</sup> <https://www.westconnex.com.au/resources>

- Deliver more than \$20 billion in economic benefits to NSW
- Support 10,000 jobs during construction – direct and indirect
- Shift through traffic and heavy vehicles to the underground motorway, returning local streets to local communities
- Overall, motorists using WestConnex will avoid 52 sets of traffic lights, including
  - 28 sets of traffic lights on Parramatta Road
  - 22 traffic lights between Homebush and Haberfield, and as part of the broader WestConnex network, reducing expected travel times from Parramatta to Sydney airport by around 40 minutes
- The M4-M5 Link will reduce traffic volumes on Victoria Road between Iron Cove Bridge and Anzac Bridge by up to 50%
- Improve the speed, reliability and safety of travel across the city
- Reduce greenhouse gas emissions by more than 610,000 tonnes a year by 2021

More than just a motorway, WestConnex will also deliver more than 18 hectares of open space for local communities in the inner west and around 23 kilometres of new and improved cycleways and walkways.

# Response to Terms of Reference

## a) The adequacy of the business case for the WestConnex project, including the cost-benefit ratio

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Major infrastructure projects in NSW, including toll roads, are subject to rigorous oversight to ensure their validity and value for the tax payer. During the development stage of major projects, agencies such as Transport for NSW, Roads and Maritime Services (RMS), NSW Treasury, Infrastructure NSW, the Department of Planning and Environment (DPE) and the Department of Premier and Cabinet (DPC) work to ensure adequate independent checks and balances. These include the development of strategic plans and application of merit bases tests, preparation of detailed business cases, independent assurance, development assessment and consent, and competitive tendering to ensure value for money.

A detailed business case for WestConnex was prepared for consideration of the Government in 2013, following advice in the 2012 State Infrastructure Strategy recommending the development of the project. The business case costed the project at \$11 - \$11.5 billion in 2012 dollars, with a 10 year delivery timeframe. The economic analysis indicated a benefit cost ratio of 2.55. A summary of this business case was published.

As development work on WestConnex continued, a number of scope and timing changes emerged, including acceleration of the New M5 following provision of a loan from the Australian Government, and the realignment of the M4 – M5 Link to Rozelle, to enable a future Western Harbour Tunnel and Beaches Link.

In 2014 the Auditor General reviewed the WestConnex assurance arrangements to the Government. One of the recommendations made included updating the WestConnex business case to take into consideration the updated scope and delivery timeframe for components of the project. Never the less, the Auditor General's report at the time stated that "*While our audit did not seek to establish whether the WestConnex project represented value for-money, nothing came to our attention during the audit which led to significant concerns with respect to this issue.*"<sup>4</sup>

Infrastructure Australia also reviewed the project in 2014 and made a number of recommendations for inclusion in an updated business case. This included the need for fully updated demand modelling incorporating induced demand and redistributed trips; and updated cost estimates for the project, informed by tender information received and a risk-based estimating approach. Despite this request, Infrastructure Australia's assessment was that "*The estimated benefits of the project are currently 80 per cent higher than the estimated costs. This provides a high degree of comfort that the project will have net benefits ... There is a degree of confidence that following an adjustment to the BCR for P90 and any negative adjustment due to induced trips, the BCR will remain positive.*"<sup>5</sup>

The WestConnex Updated Strategic Business Case was prepared by the then WestConnex Delivery Authority. As part of the development of the WestConnex Updated Strategic Business Case<sup>6</sup>, KPMG assessed the economic viability of WestConnex using a revised Cost Benefit Analysis and wider economic impacts analysis. This was informed by updated costs to cover

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<sup>4</sup> <https://www.audit.nsw.gov.au/publications/performance-audit-reports/2014-reports/westconnex-assurance-to-the-government/westconnex-assurance-to-the-government>

<sup>5</sup> <http://infrastructureaustralia.gov.au/projects/files/NSW-WestConnex.pdf>

<sup>6</sup> <https://www.westconnex.com.au/resources>

the additional scope, as well as revised traffic modelling incorporating induced demand. WestConnex is the state's first motorway project to factor induced demand into modelling.

As recommended by the Auditor General, the updated business case was subject to an independent review under the Infrastructure NSW Major Projects Assurance Framework.

The updated economic analysis undertaken demonstrated that WestConnex was economically viable and will return \$1.88 to the NSW economy for every dollar invested. WestConnex has a Benefit Cost Ratio of 1.71 without wider economic benefits and 1.88 with wider economic benefits.

The updated strategic business case was published by the Government in 2015, including technical papers detailing traffic modelling results and the economic analysis.

Infrastructure Australia reviewed the updated business case in 2016. The review acknowledged the changes undertaken, including updating of traffic modelling and costs as requested. The review found that "*Overall, Infrastructure Australia is confident that benefits for the entire WestConnex project will exceed costs.*"<sup>7</sup>

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<sup>7</sup> [http://infrastructureaustralia.gov.au/projects/files/Final\\_WestConnex\\_Project\\_Evaluation\\_Summary.pdf](http://infrastructureaustralia.gov.au/projects/files/Final_WestConnex_Project_Evaluation_Summary.pdf)

## b) The cost of the WestConnex project, including size and reasons for changes in cost over time

The 2013 initial business case estimated the cost to deliver WestConnex was \$11-11.5 billion in 2012 dollars, equating to \$14.9 billion in nominal outturn costs (aggregate of costs incurred, including inflation, over the construction period from 2014 to 2023).

Following a significant amount of detailed planning, modelling and design work, the NSW Government released the WestConnex Updated Strategic Business Case in November 2015 expanding the scope of the project. The updated project capital value was revised to \$16.8 billion in nominal outturn costs reflecting this scope change. As per the below table, the most significant scope change was the realignment of the M4-M5 Link at an additional nominal outturn cost of \$1.207 billion.

Original WestConnex (\$m)	Original WestConnex + Additions (\$m)
Stage 1	4,197
Stage 2	4,737
Stage 3	5,947
Original Business Case Total	14,881
	Enhanced Sydney Gateway connection
	402
	Extension of Stage 3 to Anzac Bridge, Victoria Road and the future Western Harbour Tunnel and Beaches Link
	1,207
	Acceleration costs and associated delivery costs for scope enhancements
	322
	<b>Enhanced WestConnex Total</b>
	<b>16,812</b>

Source: WestConnex Updated Strategic Business Case 2015, AUD nominal terms

The contribution by the New South Wales Government includes funds from Restart NSW and the consolidated fund (final contribution to be determined post sale), with the Australian Federal Government providing \$1.5 billion in addition to a concessional loan of up to \$2 billion. WestConnex is an integrated scheme, relying on toll revenues to enable the recycling of the Government's initial contribution. This reduces the overall burden on the NSW taxpayer so that there are more funds available for essential services such as hospitals, schools and police.

The New South Wales Government will effectively recycle its contribution into other State-significant priorities. The sale of 51% of the State's interest in Sydney Motorway Corporation (SMC) will help fund the M4-M5 Link. The \$7.2 billion M4-M5 Link is the most important stage of WestConnex, providing the missing link between the New M5 at St Peters and the New M4 East at Haberfield, creating a western bypass of the CBD. This sale process is currently underway.

The motorway concession will return to Government in 2060, although RMS will retain oversight and influence over the motorway throughout this time as counterparty to the concession arrangements.

While the objectives of the project remain unchanged from the 2013 business case, enhancements and improvements made since the initial reference design was first developed include:

- Improving the alignment of the WestConnex M4-M5 Link to better integrate with the future Western Harbour Tunnel, duplicating the City West Link to Rozelle to provide connectivity to the Anzac Bridge and Victoria Road.
- Building the Rozelle Interchange mostly underground to allow new open space to be delivered and will improve connectivity for pedestrians and cyclists.

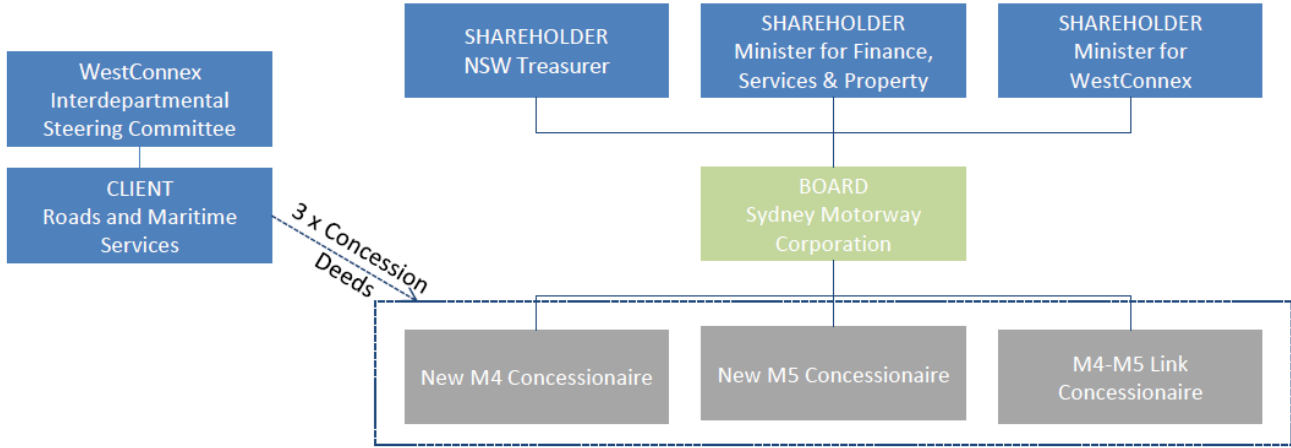


- Improving connections to the port and airport precincts by increasing the WestConnex contribution to Sydney Gateway by \$402 million.
- Adding the Iron Cove Link to the WestConnex program, an untolled section of tunnel to the Iron Cove Bridge, allowing motorists to bypass Victoria Road.
- Widening the M4-M5 Link main tunnels and increasing the number of lanes in the twin tunnels from Haberfield to St Peters from three to four lanes in each direction, part of the M4-M5 Link which will provide a western CBD bypass. The wider tunnels will help future proof Sydney's road network as the M4-M5 Link connects to the proposed Western Harbour Tunnel and F6 Extension Stage 1.

# c) Consideration of the governance and structure of the WestConnex project including the relationship between Sydney Motorway Corporation, Roads and Maritime Services, the Treasury and its shareholding Ministers

The WestConnex governance structure provides clear separation of the client and delivery functions. This is in line with the recommendation of the Auditor General to “more clearly separate roles and responsibilities for delivery, commissioning and assurance”

Roads and Maritime Services (RMS) is the client, developer and concession grantor. The Sydney Motorway Corporation (SMC) and its subsidiaries are the concessionaire with delivery and operations obligations. Infrastructure NSW is responsible for assurance under the Infrastructure Investment Assurance Framework.



WestConnex adopts the similar governance models used for all recent NSW motorway concessions. The WestConnex concession deeds provide the same allocation of responsibilities as has been used in NSW for decades.

The NSW Government has applied an innovative financing strategy to this tried and tested governance model. SMC is currently owned by the State. This financing approach was designed to provide flexibility for the State to raise private sector debt against individual stages and the progressive transfer of risk to the private sector and then sell-down equity in the project at appropriate points in time to optimise value. The NSW Government announced its plan on 12 May 2017 to sell 51% of Sydney Motorway Corporation to help fund the final stage of WestConnex - the critical M4-M5 Link connecting two of Sydney’s busiest motorways. This approach allows the investments already made in Stages 1 and 2 to be recycled toward the cost of Stage 3.

## 1. Role of RMS

RMS is the overall client for the WestConnex Project. In this role, RMS grants the concessions (including the right to toll) and grants leases over the motorway to the WestConnex concessionaires. RMS sets the tolls which the WestConnex concessionaires may charge (part of the concession deeds) and is the network owner and manager. As the client, RMS manages the client-side budget, develops and makes recommendations to Government on the Government business case, scope, staging and any other matter in connection to the WestConnex scope of works.

RMS is responsible for seeking planning approval, managing environmental assessments and related community consultation for each stage of the project. Land required for the project is acquired by RMS which retains ownership. At the end of the concession, RMS will resume responsibility for the motorway.

As the client, RMS seeks approval from and keeps central agencies and whole of Government informed as required. RMS manages all government media releases in relation to the project.

RMS will also procure and deliver the Rozelle Interchange, but will hand the asset over to SMC on opening completion for operation by the WestConnex concessionaire.

## **2. Role of Sydney Motorway Corporation and subsidiaries**

The WestConnex concessionaires are wholly-owned subsidiaries of SMC. The WestConnex concessionaires are responsible for the design and construction, operation and maintenance of the motorway. The WestConnex concessionaires procure and engage the design and construction contractors and operations and maintenance contractors.

SMC is a private company limited by shares and established under the *Corporations Act 2001* (Cth) to undertake investments in road projects that have been designated by its shareholders. Designated road projects are currently the New M4, New M5 and M4-M5 Link.

The SMC Group holds three concessions which all extend until 2060:

- The New M4 Concession involves the rights and obligations to build, operate, maintain, finance and toll the New M4 Widening and New M4 East tunnels. The New M4 Widening achieved opening completion in July 2017 and construction of the New M4 East tunnels is well progressed;
- The New M5 Concession involves the obligation to build and finance the New M5 and the rights and obligations to operate, maintain and toll the New M5, the M5 East (from opening of the New M5) and the M5 West (from December 2026); and
- The M4-M5 Link Concession involves the obligation to build and finance the main tunnel linking the New M4 and New M5, and the rights and obligations to operate, and maintain the Mainline Tunnel, Rozelle Interchange and Iron Cove Link and the right to toll the Mainline Tunnel and the Rozelle Interchange.

SMC operates just like any other motorway concessionaire in NSW. SMC operates on a commercial basis at “arm’s length” from the State and is able to borrow from private financial markets with no guarantee from the State. In this sense, this structure is similar in style to a Public Private Partnership arrangement.

SMC is currently governed by a majority independent board of directors appointed (in accordance with Government requirements that apply to Government businesses) by SMC’s three joint Shareholding Ministers, the NSW Treasurer, the Minister for Finance, Services and Property and the Minister for WestConnex. Following the sale of a 51% interest in SMC, shareholder and board representation arrangements will change to reflect the new ownership structure

### 3. Relationship between Treasury and SMC's Shareholding Ministers

Treasury's role is to monitor the performance of SMC on behalf of its Shareholding Ministers. This involves ensuring that SMC complies with various policies and regulations, including the following policies in the NSW Treasury Commercial Policy Framework<sup>8</sup>:

- Reporting and Monitoring Policy for Government Businesses (TPP18-02)
- Guidelines for Governing Boards of Government Businesses (TPP17-10)
- CEO Appointment Guidelines for Government Businesses (TPP17-11)
- Major Projects Policy for Government Businesses (TPP18-05)

Aspects of Treasury's role include:

- negotiating the annual Statement of Business Intent and business plans for SMC
- monitoring financial and non-financial performance against targets, on a quarterly basis;
- assessing major new investment proposals (which require Shareholder approval);
- advising the Shareholding Ministers of critical current and emerging issues that may impact on the business; and
- administering the process for appointments to boards.

### 4. Government Oversight and Assurance

All major decisions regarding WestConnex are subject to Government approval processes. These decision points are aligned to the Infrastructure NSW's Infrastructure Investor Assurance Framework<sup>9</sup>.

The IIAF was established in 2016, as an evolution of the Major Projects Assurance Framework, and is a Gateway Coordination Agency (GCA) framework for capital projects under the NSW Gateway Policy. It is a tiered, risk-based approach to investor assurance for capital projects valued at an estimated total cost (ETC) of \$10 million and above. Projects are grouped into four tiers, with Tier 1 subject to the highest level of scrutiny at specified gates and, if required, additional health checks. The Assurance Framework incorporates a risk-based approach to infrastructure investment assurance. The IIAF is designed to support both the delivery agencies' own decision-making and assurance processes and to support Budget processes throughout the project lifecycle.

There are three main components to the independent investor assurance process:

- project monitoring;
- regular project reporting; and
- expert and independent Gateway Reviews, Health Checks and Deep Dive Reviews.

The Assurance Framework is overseen by the Infrastructure Investor Assurance Committee, which is chaired by the CEO of Infrastructure NSW.

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<sup>8</sup> <https://www.treasury.nsw.gov.au/information-public-entities/government-businesses/commercial-policy-framework>

<sup>9</sup> <http://infrastructure.nsw.gov.au/project-assurance#firstContent>

WestConnex is a Tier 1 – High Profile / High Risk infrastructure project subject to compulsory Health Checks every six months during the delivery stage.

Government oversight is facilitated by a WestConnex Interdepartmental Steering Committee that includes Federal Government representation, regular project monitoring by Infrastructure NSW and quarterly project reporting to the NSW Government. The WestConnex Interdepartmental Steering Committee includes senior officers from Transport for NSW (Chair), DPC, RMS, NSW Treasury, DPE, the Commonwealth Department of Infrastructure and Regional Development (DIRD) and, until the sale is completed, SMC as an observer.

Sydney Motorway Corporation currently also has a significant level of accountability under a number of Acts of both State and Federal Parliament:

- Public Finance and Audit Act 1983
- Independent Commission Against Corruption Act 1988
- Ombudsman Act 1974
- Privacy and Personal Information Protection Act 1998
- Health Records and Information Privacy Act 2002
- Government Advertising Act 2011
- State Records Act 1998
- Corporations Act 2001 (Cth).

## d) Compulsory acquisition of property for the project

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The NSW Government understands property acquisition is a sensitive issue and works closely with impacted residents to ensure property owners receive fair compensation. The purchase price is based on current market valuation as assessed by accredited valuers, according to the *Land Acquisition (Just Terms Compensation) Act 1991*.

For WestConnex, the large majority of properties (c. 83%) were acquired by mutual agreement, with a minority of cases in which compulsory acquisition powers were used under the *Roads Act*. In these cases the amount paid is determined by the Valuer General.

Following reviews by David Russell SC and the then NSW Customer Service Commissioner, Michael Pratt, in 2016 the NSW Government made changes to the *Land Acquisition (Just Terms Compensation) Act 1991* to make the property acquisition process fairer, more transparent and customer focussed.

As a consequence of these changes, the Centre for Property Acquisition was established to co-ordinate the implementation of the improvements arising out of Governments response to these reviews and to provide ongoing support to acquiring authorities across government, including RMS.

Payments to property owners may include their legal costs and valuation fees, relocation expenses, eligible stamp duty costs, mortgage re-establishment costs, and any incidental costs they incur. There is a minimum six-month negotiation period, which provides affected owners with more time to obtain expert advice and consider their options. An additional sum is paid for disadvantage resulting from relocation, which was increased to a maximum of \$78,381 (for the financial year 2018-2019, which is adjusted annually to account for inflation). Although these reforms were implemented in 2016, the increase in compensation for disadvantage resulting from relocation (previously known as 'solatium') was backdated to February 2014, in line with when the Government received the review from David Russell SC.

Consistent with new standards set by NSW Government, RMS assigns a Personal Manager to assist and support the affected owners and residents of residential property through acquisition and relocation.

RMS strives to complete land acquisitions by agreement with land owners wherever possible. Where an agreement cannot be reached, the property proceeds to compulsory acquisition and the Valuer-General determines the level of compensation to be paid. Owners can have their compensation determined by the Land and Environment Court if they do not accept the Valuer-General's determination.

## e) The recommendations of the Audit Officer of New South Wales and the Australian National Audit Office in regards to WestConnex

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In late 2014, the NSW Audit Office concluded its performance audit on WestConnex Assurance to the Government. The 2014 Audit found that although the agencies then involved in the project had established a number of good practice internal assurance arrangements, the processes established did not meet best practice standards as set out in the *Major Projects Assurance Framework*. Recommendations from the Audit focused on Infrastructure NSW taking steps to ensure all major capital projects follow the requirements of the framework. The then WestConnex Delivery Authority (WDA) was required to:

- Develop a project plan for approval by Infrastructure NSW which:
  - sets out the various project components and the associated *Major Projects Assurance Framework* review and reporting requirements
  - provides for the business case to be formally and thoroughly revisited for Stages 2 and 3 of the project as well as any other major changes to the scope.
- either:
  - more clearly separate roles and responsibilities for delivery, commissioning and assurance or
  - develop and document robust processes and procedures to manage the conflicts that arise from a lack of such separation.

The recommendations of this Audit were promptly adopted. In response, a project plan was developed and submitted to Infrastructure NSW. Infrastructure NSW commissioned two WestConnex assurance reviews of the Strategic Business Case for the consolidated program and the Final Business Case for Stage 3 of WestConnex. Both of these reviews were completed and reported to the NSW Government and the updated WestConnex Strategic Business Case was published in November 2015.

Furthermore, significant changes have been enacted in the governance of the program with the dissolution of the WDA and the return of certain functions to RMS allowing for a clear separation of roles between delivery (Sydney Motorway Corporation), commissioning (RMS) and assurance (Infrastructure NSW).

The Public Accounts Committee<sup>10</sup> reviewed the implementation of actions taken to improve assurance over the program in response to the 2014 audit and reported in March 2017 that it was satisfied with the response by the agencies involved. Assurance practices are currently in place to oversee the delivery of the program of works by the SMC in line with the Infrastructure Investor Assurance Framework.

The National Audit Office also conducted a performance audit of the Federal Government's contribution to the WestConnex project, and tabled its report in February 2017. The Audit recommended improved processes in the way the Federal Infrastructure Department provides advice to its Ministerial office.

The NSW Audit Office periodically audits State Significant Infrastructure projects and has scheduled a performance audit of WestConnex for 2019-20. The upcoming audit will be the project's third and is a standard practice of good governance.

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<sup>10</sup> <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2420>

## f) The extent to which the project is meeting the original goals of the project as articulated in 2012

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In 2012 Infrastructure NSW proposed objectives for the WestConnex motorway<sup>11</sup>:

- Support Sydney's long-term economic growth through improved motorway access and connections linking Sydney's international gateways and Western Sydney and places of business across the city.
- Relieve road congestion so as to improve the speed, reliability and safety of travel in the M4 and M5 corridors, including parallel arterial roads.
- Cater for the diverse travel demands along these corridors that are best met by road infrastructure.
- Create opportunities for urban renewal, improved liveability, and public and active transport improvements along and around Parramatta Road.
- Enhance the productivity of commercial and freight generating land uses strategically located near transport infrastructure.
- Fit within the financial capacity of the State and Federal Governments, in partnership with the private sector.
- Optimise user pays contributions to support funding in a way that is affordable and equitable.

Since construction commenced in 2015, the WestConnex project has remained on track to achieve these objectives. The King George Interchange and the widened section of the New M4 are already complete, with motorists already experiencing travel time savings of up to 18 minutes on that section of the motorway. The New M4 tunnels are due to be completed in early 2019 and when open will provide additional travel time savings and efficiencies for motorists throughout the traffic network. While many of the original objectives have already been met in part, they will be fully met when the WestConnex motorway is completed in 2023.

Sydney's population is set to grow by more than one million people in the next 10 years. A growing population will result in additional traffic and, by 2031, the road network is expected to cater for an estimated 19 million trips per day.

With additional traffic comes growing congestion, frustrated commuters spending less time with family and reduced productivity. The Bureau of Infrastructure, Transport and Regional Economics estimates that in 2015 Sydney's congestion cost the economy \$6.1 billion. By 2030 this is expected to rise to \$12.6 billion.

The NSW Government is investing in Sydney's road infrastructure and closing gaps in the motorway network because, as our population grows, strategically significant roads that move people and goods rapidly over long distances will be critical.

WestConnex will provide high quality, motorway standard connections by linking Sydney's west and southwest with the city, airport and port with more than 30 kilometres of continuous motorway. The project will transform urban travel by providing better connectivity between key employment hubs and local communities.

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<sup>11</sup> 'WestConnex – Sydney's next Motorway priority', Infrastructure NSW, 2012



By removing traffic from surface roads and local streets, WestConnex will provide a catalyst for urban transformation in Sydney. More than two-thirds of WestConnex will be built underground to minimise surface impact and property take. Once complete, motorists will be able to avoid up to 52 sets of traffic lights and enjoy significant travel time savings.

WestConnex has also provided almost \$200 million to support the renewal of Parramatta Road. The Greater Sydney Commission is tasked with delivering the Parramatta Road Urban Amenity Improvement Program together with councils. The program will deliver new open space and plazas, new cycle paths, new playing fields and streetscape improvements along the Parramatta Road corridor.

As one of the largest infrastructure projects in Australia, WestConnex is part of *Future Transport 2056* which includes improved public transport, such as Sydney Metro and light rail, as well as better, more reliable motorway solutions.

WestConnex and other NSW Government motorway projects will enable significant improvements in travel times, productivity, reliability and accessibility for NSW motorists and the broader state and national economies.

**WestConnex consists of three concessions split into sub-projects:**

<p><b>M4 Widening (Parramatta to Homebush)</b> - widening the existing M4 Motorway from Parramatta to Homebush.</p>	<p><b>The New M5 (Beverly Hills to St Peters)</b></p>	<p><b>M4-M5 Link Haberfield to St Peters</b></p>
<p><b>M4 East (Homebush to Haberfield)</b> - extending the M4 Motorway in tunnels between Homebush and Haberfield via Concord. Includes provision for the connection to M4-M5 Link.</p>	<p>– duplicating the M5 East from King Georges Road in Beverly Hills with tunnels from Kingsgrove to a new interchange at St Peters. The St Peters Interchange allows for connections to the proposed Sydney Gateway motorway. The New M5 tunnels include provision for a connection to the M4-M5 Link together with stumps for a potential future connection to the F6 Extension.</p>	<p><b>– this will be delivered in two stages:</b></p>
	<p><b>King Georges Road Interchange Upgrade (Beverly Hills)</b></p>	<p>Mainline Tunnel: Connection of the New M4 in Haberfield and the New M5 in St Peters via two tunnels; and</p>
	<p>– upgrade of the King Georges Road Interchange between the newly widened M5 West and the M5 East at Beverly Hills, in preparation for the New M5.</p>	<p>Rozelle Interchange: connects to the Mainline Tunnels and will provide a new underground motorway interchange to City West Link and an underground bypass of Victoria Road between Iron Cove Bridge and Anzac Bridge, the 'Iron Cove Link', with links to the future Western Harbour Tunnel.</p>

The total estimated cost of WestConnex is \$16.8 billion. The budget includes an \$800 million contribution to the Sydney Gateway Project - the proposed link from the New M5 St Peters Interchange to the Sydney Airport and Port Botany precincts.

Once complete, WestConnex will form the central spine of Sydney’s motorway network enabling an integrated motorway that will enable connectivity to existing and future transport

projects. An integrated network will support the efficient movement of people and goods throughout Greater Sydney.

*Future Transport 2056* focuses on achieving transport outcomes for the people of NSW. It outlines a vision, strategic directions and customer outcomes, with infrastructure and services plans underpinning the delivery of these directions across the state.

The vision for Greater Sydney as a metropolis of three cities<sup>12</sup>, where people can access the majority of jobs and services within 30 minutes, will require a sustained and staged investment program to protect corridors and develop an integrated transport system.

These initiatives ensure NSW is prepared for rapid changes in technology and innovation and to create and maintain a world class, safe, efficient and reliable transport system over the next 40 years.

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<sup>12</sup> <https://www.greater.sydney/content/metropolis-of-three-cities>

## **g) The relationship between WestConnex and other toll road projects including the Sydney Gateway, Western Harbour Tunnel, F6 and Beaches Link**

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As Sydney's population grows, our economy and jobs will also grow, as will the number of trips made in and around Sydney every day. Congestion costs our economy around \$6.1 billion a year. By 2030, this cost is expected to hit \$12.6 billion a year. Motorway connections, as part of an integrated transport network, provide critical support to a growing economy in a global city like Sydney.

*Future Transport 2056* lists Greater Sydney's committed new transport infrastructure initiatives. This includes WestConnex and three new motorway projects in development - the F6 Extension Stage 1, Western Harbour Tunnel, and Beaches Link.

The F6 Extension Stage 1, Western Harbour Tunnel and Beaches Link projects have strong interfaces with WestConnex, and this was reflected in the 2015 WestConnex Business Case. Alignment and integration with these motorways was a key driver behind some of the scope changes to the WestConnex motorway in 2015, in particular the shift of the M4-M5 Link north to Rozelle. The Rozelle Interchange and the New M5 motorway have both been future proofed in their design to facilitate the connection of future motorway connections, to the Western Harbour Tunnel and the F6 respectively.

### **F6**

The F6 Extension Stage 1, from the WestConnex New M5 Motorway at Arncliffe to President Avenue at Kogarah, will deliver the first stage of a motorway connection from Sydney's south to the wider motorway network, making journeys easier, faster and safer. This four-kilometre underground twin tunnel connects with the New M5 Motorway at Arncliffe, 75 metres underground, passing under Rockdale to an intersection at President Avenue at Kogarah. It will also be designed with provision for a future extension south – from Kogarah to Loftus.

### **Western Harbour Tunnel**

The Western Harbour Tunnel would provide a new high capacity road crossing under Sydney Harbour, taking pressure off the Sydney Harbour Bridge and Tunnel. A proposed 6.5 kilometre motorway tunnel providing a new western bypass of the Sydney CBD, allowing motorists to avoid the ANZAC Bridge, Western Distributor and Sydney Harbour Bridge, improving journey times and reliability for cross harbour trips and the broader network.

The project also provides direct access from the north of the harbour to the southern and western networks including the WestConnex motorway via the Rozelle Interchange. The Western Harbour Tunnel would connect WestConnex at Rozelle, under Sydney Harbour, with the Warringah Freeway. The associated Warringah Freeway Upgrade is a four kilometre upgrade to provide connections for the new tunnels and improve this busy and complex road corridor.

### **Beaches Link**

Beaches Link is a proposed 7.2 kilometre motorway tunnel, from the Northern Beaches, under Middle Harbour, to join with both the Warringah and Gore Hill Freeways. It will interface with WestConnex via the Western Harbour Tunnel and would provide a new high capacity road crossing under Middle Harbour that will improve car and bus journey times and provide new connections between the Northern Beaches and both St Leonards and Macquarie Park. The final cost will be determined when a final design and financing options from the private sector have been finalised.

Beaches Link will take pressure off The Spit Bridge, Military Road and Roseville Bridge, improving amenity in Mosman, Cremorne, Seaforth and Neutral Bay, and relieving traffic flows

through Roseville and Willoughby. It will integrate with Sydney's public transport network (bus, metro, and rail) to deliver significant improvements to bus services and provide opportunities for additional express bus routes.

### **Sydney Gateway**

*Future Transport 2056* recognises the Sydney Airport and Port Botany precinct is a key contributor to the NSW and Australian economy and home to Australia's busiest airport and second busiest container port. The precinct is heavily constrained with substantial road congestion and rail inefficiencies that potentially impact the NSW and Australian economy. The Sydney Gateway project is being designed to address this issue.

While still in the development stage, Sydney Gateway will link the WestConnex St Peters Interchange to Sydney Airport, improving road connectivity to Port Botany and support the competitiveness of these strategic centres. Sydney Gateway will also involve the duplication of three kilometres of the Port Botany rail freight line, as well as road upgrades in the airport and port precinct. This integrated freight rail and road program will expand capacity and improve connections to the Port, to assist with management of growth in air passengers, freight and employee traffic movements across the region. The Port Botany rail duplication component of the program will support the freight growth projections and the shift in freight from road to rail. The Sydney Gateway is a separate project from the WestConnex program, it is not included in the sale of Sydney Motorway Corporation.

## **h) The circumstances by which WestConnex and the Sydney Gateway were declared to be separate projects in 2017**

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Sydney Gateway is being planned to free up transport capacity for both Sydney Airport and Port Botany, and will provide the link between WestConnex and the airport and port precincts. Sydney Gateway is a separate project to the WestConnex project.

The Government has always sought to improve connectivity to the port and airport precincts, however the scope of the Gateway project has expanded over time. The Sydney Gateway project features a seamless, high capacity road link between the WestConnex St Peters Interchange and Sydney Airport and beyond towards Port Botany. The project is also being developed to include complimentary enhancements to the road network in the Airport and Port precinct. Finally, Sydney Gateway also seeks to duplicate a three-kilometre section of the Port Botany freight rail line to increase capacity and improve service reliability. The duplicated section from Botany to Mascot will allow freight to be moved more quickly and efficiently allowing businesses to get goods to consumers sooner and reduce the proportion of trucks on local roads. RMS is currently working with key stakeholders, to finalise the concept design for Sydney Gateway for consideration by Government.

Sydney Gateway is not being developed or delivered by SMC and it is not part of the package of assets that make up the 51% sale of SMC. Further, Sydney Gateway is not included in the WestConnex tolling regime.

The \$16.8 billion WestConnex motorway program does however include an \$800 million contribution to the motorway component of Sydney Gateway.

The NSW Government remains committed to delivering the motorway component of the Sydney Gateway.

## **i) The cost of the project against its current valuation as determined through the sale of the Sydney Motorway Corporation and whether it represents a good investment for NSW taxpayers**

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The NSW Government is committed to always deliver the best result for the people of NSW.

The asset recycling program is a cornerstone of the Government's fiscal strategy, allowing the Government to commit to record levels of infrastructure investment while maintaining the State's triple-A credit rating. The asset recycling program has enabled the Government to:

- fast-track critical infrastructure projects, including bringing forward project start dates, accelerating project timeframes, and funding projects that were previously unfunded.
- substantially reduce the current and future level of debt of the state sector.

The funds secured through the 51% sale of Sydney Motorway Corporation will be reinvested into WestConnex, to deliver the M4 – M5 Link. This minimises the cost to taxpayers to deliver the project.

In simple terms, the sale proceeds will reflect the market's valuation of the project's toll revenue stream, adjusted for risk. This does not correlate with the cost to build the project. The value of WestConnex to the NSW economy is qualified by the economic cost-benefit analysis of the project, not by a financial evaluation. The economic analysis demonstrates a benefit cost ratio of 1.88 with wider economic benefits. This is the appropriate measure for a government to consider as it compares the economic benefits of WestConnex with the delivery cost of the project. It indicates that for every \$1 in project cost, it will deliver \$1.88 in benefits to the NSW economy.

It is important to note that the financing structure for WestConnex means that although the cost to build the project is \$16.8 billion, this is not the cost to the NSW taxpayer. A large portion of this is instead financed by debt and, following the sale of WestConnex, private equity. Both of these financing sources are supported by toll revenue.

The Government always conducts each transaction with the highest integrity standards. Each transaction is monitored by an independent probity advisor who is there to ensure every transaction is conducted in a fair and equitable manner.

The Government is not able to comment on live transactions or speculate on sale valuations.

## j) Any other related matter

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### Motorways in NSW

The NSW Government is delivering the largest infrastructure package in New South Wales' history. This unprecedented investment is driving growth across the state and will deliver a better connected transport and roads system. In 2012 the Government released a Long Term Transport Master Plan. This is first comprehensive transport plan for NSW that is actually being delivered. The WestConnex motorway is part of that Long Term Transport Master Plan.

Charging tolls on motorways enables investment in major roads to be brought forward and the motorway network to be built faster. In addition to motorists' travel time savings, communities benefit from reduced congestion and industry benefits from reduced travel times and lower operating costs which both boost productivity and economic growth.

Lower up-front Government contributions enables the Government to invest earlier on wider infrastructure needs. Tolls enable the cost of constructing, maintaining and operating a road to be recouped over time from road users by the private sector concessionaire that absorbs the initial investment. This funding approach has reduced the government contribution required for motorways and the overall burden on taxpayers, freeing up capacity to invest in other essential services such as hospitals, schools, public transport and police.

The WestConnex motorway follows the same commercial principles as all other private motorways in NSW. Toll road operation in NSW is governed through the granting of concessions by RMS, on behalf of the State, in respect of each toll road. Prior to RMS granting a concession RMS must obtain the requisite Ministerial directions. RMS grants a concession to the concessionaire to operate (including by collecting tolls from drivers) and maintain the motorway for a certain period before handing the motorway back to RMS. RMS remains at all times the owner of the motorway.

Some examples of motorways delivered under this model are the Hills M2 Motorway, Westlink M7 Motorway, Lane Cove Tunnel, Cross City Tunnel, Eastern Distributor, the M4 in its original form (before WestConnex) between Parramatta and Homebush and the M5 South West Motorway.

The toll prices and mechanism for toll escalation are governed by the respective concession deeds, and are determined by business cases and policy decisions prior to granting of the concession. The tolls which WestConnex concessionaires may charge are set upfront by RMS in the concession deeds.

The motorway operator has rights and obligations under the concession deeds. At the end of the concession term, these rights and obligations are handed back to the Government.

The considerations informing a decision to progress a road project as a toll road include the economic benefit to the State, benefits to road users, congestion on the road network, available funding, availability of alternative routes and the prevailing level of interest from the private sector.

As the proponent, RMS puts in a significant amount of work at the planning approval application stage and carries out detailed technical and planning investigations, environmental investigations, design work and public consultation.

The project deed allocates responsibility for:

- design, construction, operation and maintenance of the motorway to the concessionaire; and
- RMS to allow access to land, and give possession (but not the freehold title) of land, required for the construction, operation and maintenance of that motorway in a timely

fashion, and in any event by deadlines set out in the project deed, with adverse financial implications arising from failure to hand over possession of the land by those deadlines

RMS retains ownership of the land on which the motorway is constructed. RMS typically undertakes to provide a lease of the toll road to the counterparty to the deed. The counterparty then assumes responsibility for operating the tollway for the duration of the lease and collects tolls from drivers.

Each motorway project is also subject to a rigorous environmental assessment under the *Environment Planning and Assessment Act 1979*, consistent with the process other key infrastructure projects go through. Projects of this scale are typically designated as “Critical State Significant Infrastructure” to facilitate their environmental assessment. This process includes the preparation of detailed environmental impact assessments for community input and merit reviews by independent specialist agencies including the EPA, the Office of the NSW Chief Scientist and Engineer, NSW Health and the Advisory Committee on Tunnel Air Quality<sup>13</sup> to provide the community with assurance that key community concerns (including air quality) will meet regulatory requirements and goals.

In February 2018, Government announced it would strengthen its approach to air quality issues in motorway tunnels. In respect to WestConnex in particular, this means the Environment Protection Authority (EPA) will now regulate ventilation facilities at tunnels through Environment Protection Licences (EPLs).

RMS, EPA, and the Department of Planning and Environment (DPE) also have formal processes in place to provide assurance that the delivery of a project complies with the stated objectives of the project, best practice environment performance and legislative requirements. These processes include the overarching Environmental Management System framework (Construction Environmental Management Plan – CEMP) to outline and describe how a project will comply with the NSW Minister for Planning’s conditions of approval (MCoA) and how environmental impacts will be managed. The CEMP is complemented by Environment Protection Licences (EPL) that are regulated by the EPA under the *Protection of the Environment Operations Act 1997*. Compliance with the overarching CEMP and EPL are subject to frequent independent audits and inspections by RMS environment staff, DPE compliance and EPA.

## **Safety**

The safety of workers, the community, and road users is the number one priority.

At the end of May 2018, the Lost Time Injury Frequency Rate across all WestConnex projects was below 1.0, which is well below project targets and well below the industry average for both the heavy and civil engineering construction industries.

## **Community consultation**

The NSW Government supports and encourages community involvement in the WestConnex project.

In working with stakeholders and the community, endeavours are always made to:

- make the most of all opportunities to involve local communities and stakeholders in the project

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<sup>13</sup> <http://www.chiefscientist.nsw.gov.au/reports/advisory-committee-on-tunnel-air-quality>



- arrange engagement activities at times and places that are convenient for the community and stakeholders
- provide online options
- respond to reasonable requests for additional engagement activities and information
- acknowledge and understand diverse views on the project
- use feedback to positively influence the project.

Activities include:

- sending notifications either electronically or in hardcopy,
- door knocking,
- public information sessions,
- meetings with key stakeholders, including councils, property owners and residents,
- interface and interagency meetings,
- surveys, and requests for submissions or feedback.
- Online information is also provided and feedback is accepted on a 24-hour 1800 information line or via email.

The project's community consultation program is ongoing and RMS and SMC continue to welcome community feedback about WestConnex.

### **Community benefits (open space)**

As part of WestConnex, the New M4 is delivering the Haberfield Gardens, which will transform the 5,000 square metre construction zone between Walker Street and Parramatta Road in Haberfield. This space will provide a new pedestrian and cycle connection between Parramatta Road and the Bay Run while reflecting the heritage of the suburb.

The New M5 project will remediate the site of the former Alexandria Landfill, and result in an additional 8.5 hectares of new open green space. The additional open space includes 2.5 hectares of open space at the interchange site which, on completion of the M4-M5 Link, will be linked directly to Sydney Park via a new land bridge over Campbell Road.

The M4-M5 Link provides an opportunity to improve the local environment within and surrounding the former Rozelle Rail Yards. The project will return up to 10 hectares of open green space at the site which will be developed with input and consultation with the community.

### **Progress update**

The overall WestConnex project remains on time and within budget, with 40% of the project complete.

The King Georges Road Interchange Upgrade was the first WestConnex project completed, opening two months ahead of schedule in December 2016. Motorists are already benefiting from the Widened New M4 with four lanes between Parramatta and Homebush easing congestion and saving time.

Tunnelling activity is complete on the New M4 East tunnel, with work now under way to lay the continuous reinforced concrete pavement road surface, road barriers and the mechanical and electrical fit out to allow for safe operation of the motorway. When the New M4 opens in early 2019, drivers will save up to 20 minutes on a trip from Parramatta to the city and there will be 10,000 fewer trucks on Parramatta Road.

More than 75% of the tunnelling on the New M5 is complete and the first bridge segment of St Peters Interchange has been installed. Land for the M4-M5 Link Mainline Tunnels interfacing with the New M5 has been handed over to the M4-M5 Link Mainline Tunnel contractor, and the tunnel grouting program at Tempe Reserve has been completed, allowing for the handback of newly resurfaced netball courts to the local community.

The M4-M5 Link Mainline Tunnel contract has been awarded and construction on site will commence later this year and open to motorists in 2023. The Rozelle Interchange and Iron Cove Link contract is expected to be awarded by the end of 2018 and will open to traffic in late 2023.