

**Submission
No 435**

INQUIRY INTO IMPACT OF THE WESTCONNEX PROJECT

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Parliamentary Inquiry into the impact of the WestConnex Project

Submission from:

Cr Rochelle Porteous

Inner West Council

(former Councillor and Mayor Leichhardt Council)

This submission will address the following Terms of reference with particular focus on the issue of toll roads with the WestConnex Project.

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

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

(h) the circumstances by which WestConnex and the Sydney Gateway were declared to be separate projects in 2017.

(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.

(j) any other related matter.

Part 1:

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The sale of a 51% stake in Sydney Motorway Corporation:

Transurban's consortium Sydney transport Planners is purchasing a controlling stake in Sydney Motorway Corporation of 51%. They will pay \$9.26 billion for this and for the next 42 years they will collect tolls from users of WestConnex.

The sale agreement with the Transurban consortium will see annual toll increases at 4% or inflation – whichever is higher every year from 2023. From 2040 to 2060 tolls will increase at the rate of inflation.

The transaction also includes the right to toll the M5 South West motorway, which is not part of WestConnex, from 2026.

The project risk appears to continue to sit with the NSW taxpayer with the RMS responsible for the full delivery of the project, including of course the very complex

Stage 3 and Rozelle Interchange. Furthermore RMS is liable to compensate WestConnex for any delays in completion, any change in scope of Stage 3B and any abandonment of the project. It is not known at this stage what amount in compensation the NSW taxpayer will have to pay the Transurban consortium or how and when these compensation payments would kick in.

Tolls are distance-based but capped at \$8.95 to 2023 then increased by 4% per annum or rate of inflation, whichever is higher, after that from 2040 to 2060 increases are at the rate of inflation. This will see toll charges going up to \$46.00. The level of tolls is already prohibitive for many people and it will be so much worse moving into the future. We are putting an unfair burden on future generations to pay impossibly expensive tolls in what will become one of the most tolled cities in the world.

Credit Suisse in their Equity Research paper, published January 2017, estimated the entire value of the WestConnex project to a buyer at only \$3 billion. So why did the Transurban consortium offer over three times that amount at \$9.26 billion?

The Credit Suisse valuation of the entire WestConnex project is based on assumption that the successful purchaser will be liable for construction of Stage 3 – the most difficult stage with the M4 /M5 Link and the Rozelle Interchange.

Credit Suisse values Stage 1 at \$3.5 billion and Stage 2 at \$2.9 billion and it gives Stage 3 a negative value of \$3.4 billion “due to the high capital cost of the tunnel construction and the toll prices at the same level as the rest of WestConnex.” (p.10, Credit Suisse, Equity research paper)

However, the Transurban consortium/ NSW Government deal has taken all capital construction and delivery costs for Stage 3 out of the agreement putting the entire risk for Stage 3 on the NSW Government (and therefore NSW taxpayers) apart from a small contribution of \$500,000 from the consortium. Not only that but the Roads and Maritime have added clauses to the agreement which would mean that if Stage 3 is not delivered on time according to the agreed timeline that it will be required to pay compensation to Transurban.

And it would appear that Transurban are banking on a delay. They are advising their own investors that Stage 3 will not open until 2025 as they expect a delay on construction of Stage 3 of 18 months.

The transaction also includes the right to toll the M5 West motorway, which is not part of WestConnex, from 2026. Credit Suisse notes that if we just privatised the M4 and the M5 the value would be about \$9 billion. Again referencing the advice Transurban has given its shareholders, it would appear that they identify up to 60% of the total value of the purchase sits with these 2 new tollways.

In short, the Transurban consortium got themselves a bargain. The whole of WestConnex, without the risk and another tollway – the M5 West thrown in as well.

High cost of tolls and tolls avoidance:

Not just the very high cost of each toll but the cumulative impact of having to pay a number of tolls to complete one journey means that many people already try and avoid tolled roads whenever possible. This will become worse when the WestConnex tollways are added to the network.

For the many Sydneysiders on low or medium wages, tolls will not be a luxury they can afford to pay. We are already seeing this happening with the collapse of the business models predicting toll usage levels that were never even close to being achieved and we can see it with the early traffic data figures for the widened M4 which is seeing significant increases not in use of the now tolled M4 but on roads where the toll can be avoided like Parramatta Road. The tollways are making Sydney a less liveable city.

“The full WestConnex motorway will already cost about \$11 a trip when it opens in 2023. A few years after that, it seems, WestConnex will be connected to motorways to the northern beaches, and potentially to the south. Using the Western Harbour Tunnel and Beaches Link, a return drive from Parramatta to Manly might not return change from \$40”. (SMH report July 2017).

A University of Sydney study identified a point at which people reach ‘toll saturation’ and can no longer afford to pay tolls. According to the Australian Bureau of Statistics, half the population of Western Sydney has an income of less than \$600 per week. After living expenses, few could afford the starting price of \$90-\$110 a week on tolls (based on 10 trips per week when the completed tollway opens in 2023). (Cassi Plate, Bottleneck 2017)

It should come as no surprise that independent traffic modelling by SGC has found most people will avoid the tolled roads wherever possible. In addition a ReachTEL survey commissioned by No WestConnex – Public Transport before the July 2016 Federal election found nearly two-thirds of respondents in the Parramatta electorate (62.2%) stated that they wouldn’t use the WestConnex tollway but would instead use other roads, meaning more ‘rat running’ through suburban streets. Asked as well about their preference for government to spend money on this WestConnex tollway or on public transport, 64.5% stated that they would prefer governments spend taxpayers’ money on public transport.

Recent vehicle data analysis on the uptake on use of the widened tolled M4 show that results are similar to the traffic modelling and polling. Figures show that Parramatta Road is getting more congested as people continue to move off the now tolled M4 and onto Parramatta Road.

Vehicle registration cashback scheme:

Last year, prior to the reintroduction of tolls on the widened M4, a cashback scheme on vehicle registration fees for regular toll road users was introduced. This sees anyone regularly spending more than \$25 a week on tolls eligible for a refund on their car registration fees which are estimated at approximately \$358 for the majority

of those eligible. As noted by academic, Chris Standen, it is estimated that this subsidy will cost taxpayers \$1 billion over the next 10 years despite the fact that it is poor compensation for the thousands of dollars most regular tollway users will spend each year on tolls with estimates of \$3,300 a year on the existing M5 East and \$2,000 a year on the widened M4.

Transurban: too much ownership of tollways with one company:

Transurban already owned 7 of the 9 tollways in Greater Sydney, WestConnex will be its' eighth tollway. The concentration of ownership of tollways with one company – not just in Sydney but also in Melbourne and Brisbane gives Transurban a lot of leverage with government and all future governments will need to consult and negotiate with Transurban when planning future roads and transport networks. In short it puts Transurban in the drivers' seat for future transport planning in Sydney and creates a monopolised toll road regime for decades to come.

Plus money from tolls collected by Transurban does not benefit society. It benefits the shareholders of a large corporation. In contrast, money from tolls collected by government is available to invest in schools and hospitals and essential services and infrastructure. .

How much will WestConnex really cost and who is footing the bill?

There are two cashback schemes that now need to be factored into the cost of WestConnex: the cashback vehicle registration scheme which is estimated to cost NSW ratepayers \$1 billion over the next 10 years and the M5 West motorway cashback scheme which is also estimated to cost the NSW taxpayer a further \$1 billion over the next 10 years.

The M5 West (from 2026) has been added to the deal with Transurban. Until yesterday this was a publically-owned motorway. It has now been effectively privatised and it is extraordinary that it has been thrown in as part of the WestConnex sale - most likely to get the deal over the line with Transurban.

A further \$1.5 billion has been spent of compulsory property acquisitions.

We need to further factor in the fact that RMS is undertaking significant road and infrastructure works across Sydney which are directly linked to the WestConnex project. Many of these works are required to be done before stages of the WestConnex open, some works are required in order to induce more traffic onto the new tollway, such as the work to reduce the number of traffic lanes on key arterial roads such as Parramatta Road and Sydney Park Road which are the alternate "free" roads to using the tollway.

We don't have a figure for the many millions that government has spent on legal representation, PR, planning, consultants and financial planners but we do know that the state and federal governments have spent over \$5 billion on WestConnex and that the state government has agreed to put \$5.3 billion of the sale proceeds back into WestConnex to build Stage 3. .

So, the total cost of the WestConnex project can now be safely estimated at \$20.5 billion and that figure continues to rise.

As noted by Academic Chris Standen, “Is the acquisition a good deal for the Transurban consortium? \$9.3 billion may sound like a high price, given the past financial collapses of tollways in NSW and Queensland. However, given the Berejiklian government is agreeing to fund most of the remaining construction, handing over tolling rights for the M4 and M5, guaranteeing annual toll increases of at least 4% and bending over backwards to force motorists under the toll gantries, I’d say Transurban has picked up a bargain. (Chris Standen)

Part 2:

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

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

(h) the circumstances by which WestConnex and the Sydney Gateway were declared to be separate projects in 2017.

WestConnex was first announced in 2012 and presented as a transport and “urban renewal” project:

The 33km tollway we were told, would enable urban densification right across the inner west and allow high rise, high density housing in and near the Parramatta Road corridor. The planned tollway became the justification for rezoning land along the Parramatta Road corridor to high rise, high density residential; the justification being that the tollway would make Parramatta Road more liveable and free up capacity on Parramatta Road. This capacity would allow more fast buses which were the only public transport planned with the project.

“WestConnex is the largest transport project in Australia, linking Sydney’s west and south-west with the city, airport and port in a 33 km continuous motorway. It will transform Sydney and be the trigger for urban revitalisation that will beautify the Parramatta Road corridor and make it a more attractive place to live, work and socialise.” (WestConnex Business Case; 2013)

It soon became clear that there was going to be huge community backlash to the plans of Government to use the WestConnex tollway as the developers’ Trojan horse to justify rezoning large parts of the inner west to high density housing.

We therefore we saw the splitting of the tollway project from the high rise development rezoning project and the release of the “New Parramatta Road: Draft Parramatta Road Urban Renewal Strategy” in November 2014 by Urban Growth NSW.

Urban Growth NSW identified a population increase of 51,600 by 2031 along the corridor (Parramatta to Camperdown). It identified 8 precincts for urban renewal, three of which were within the former Leichhardt LGA. In the Taverner's Hill Precinct, for example, the strategy wanted a tripling of the local population and additional 4,000 to 5,500 new dwellings by 2050.

Of course the reduction in traffic on Parramatta Road was always something coming from La La Land. There was no evidence to support this premise. The evidence both from RMS and independent studies such as SGC traffic modelling (WestConnex Traffic Modelling: Technical Report; 2015) plus the recent traffic data analysis undertaken after the M4 tolls we reintroduced this year, all showed the same thing - that traffic increases not decreases on Parramatta Road because of the WestConnex tollway.

It becomes very clear in light of these studies that WestConnex from day one was never going to take traffic off Parramatta Road. It was built to put public assets into private ownership and as a way to take over the planning powers of local councils and force high density rezoning into the Inner West. The role of property developers, business councils and developer-aligned lobby groups in developing and then promoting the WestConnex project to push through their rezoning agenda is clear. Forced council amalgamations- particularly of the inner west, south west and western councils were also part of the WestConnex plan of the O'Farrell then Baird then Berejiklian governments. Forced amalgamations effectively eliminated the local councils standing up for their communities and fighting against WestConnex. To hand developers complete control of local planning controls, the government also removed from all councils the right to determine planning developments and established the Greater Sydney Commission to take over planning in metropolitan Sydney. To push through the WestConnex project it developed an EIS process which enabled even the most flawed of projects to be approved and for all opposition to be effectively ignored.

The goals of the WestConnex project in 2012 were also to reduce congestion and to provide better connections from Western Sydney to Sydney Airport and Port Botany:

Again the WestConnex project fails on both accounts. As noted by In the SGC Traffic Modelling report for City of Sydney, 2015, "Sydney traffic congestion will worsen with or without WestConnex, with the project only making a minor difference to Sydney's overall traffic in the future."

"The WestConnex project would create newer, better motorways. But tolls mean a smaller share of Sydney's motorists would use them. Displaced motorists will instead use free alternatives, increasing traffic on other roads, including Parramatta Road." (WestConnex Traffic Modelling; Technical Report; City of Sydney; SGC Planning and Economics; 2015)

In terms of providing better connections from Western Sydney to Sydney Airport and Port Botany the WestConnex project fails as it was revealed last year that the Sydney Gateway – which is the tollway link from WestConnex to Sydney Airport and through to Port Botany will no longer be part of WestConnex and will not be part of the WestConnex capped toll.

The cost of the Sydney Gateway is estimated at an additional \$1.8 billion.

The Sydney Gateway will be subject to additional tolls and to add a further disincentive to connecting Western Sydney to Sydney Airport, the current main connection route to Sydney Airport is the M5 East. This will be tolled \$14 for a round trip from 2020 forcing many Western Sydney drivers to use local roads instead.

The Sydney Gateway project linking Western Sydney and St Peters to Sydney Airport and the freight coming from Port Botany is a principle justification for the WestConnex project. Stuart Ayres removed the Sydney Gateway from the WestConnex Project in 2017 with no explanation and no justification and no indication as to when it would be build, by whom and where funding would be sourced for it. It has disappeared from the project. Without it WestConnex becomes the road to nowhere – or perhaps more precisely it becomes the road to one big traffic jam.

Recommendations:

Former Premier Barry O’Farrell provides evidence to the Committee on:

- 1) How the decision was made to endorse the WestConnex project without doing any community consultation.
- 2) Which developers, business council representatives and developer lobby groups former Premier O’Farrell lobbied him to approve the WestConnex project..
- 3) What development he wanted to see happen in the inner west, south west and western Sydney.

Nick Greiner, current consultant to Transurban and former Chair of Infrastructure NSW provides evidence to the Committee on:

- 1) What evidence was gathered and which transport planners consulted before the decision was made for Infrastructure NSW to endorse the WestConnex project.
- 2) Nick Greiner has always called WestConnex an “urban renewal” project as well as a road project. Which developers / developers’ lobbyists did he talk to when developing his concept for WestConnex to be an “urban renewal” project. How did they influence his decision-making?
- 3) Nick Greiner now works as a consultant for Transurban. What role did he have in developing the tender bid and negotiating the agreement with Government?

Minister for WestConnex, Stuart Ayres provides evidence to the Committee on:

- 1) Why was the Sydney Gateway removed from the WestConnex project last year?
- 2) When will the Sydney Gateway be built?
- 3) Where will the funding to build the Sydney Gateway will come from?

- 4) What are the predicted additional tolls which will need to be levied on the Sydney Gateway?
- 5) In regards to the 51% sell off of Sydney Motorway Corporation to the Transurban consortium, what will be the compensation payment/s required to be paid if there is a delay, change of design on Stage 3B or abandonment of Stage 3 works?

Treasurer Dominic Perrottet.

- 1) In regards to the 51% sell off of Sydney Motorway Corporation to the Transurban consortium, why has a road that was due to cease being tolled been included in the sale to Transurban? Was that offered to both bidders or was it a requirement for the sale to proceed by Transurban?
- 2) Are there clauses in the sale document with Transurban which require compensation payments or allow Transurban to sue the government if new public transport infrastructure is developed in the future, for example a new rail project which could compete with the WestConnex tollway and impact on its' revenue?
- 3) What traffic forecasts and financial models were made available to the final 2 bidders for the sale of WestConnex?

References:

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16 January 2017

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