Submission No 146

INQUIRY INTO ROAD TOLLING REGIMES

Organisation: Transport for NSW

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Transport for NSW Submission

Legislative Council Portfolio Committee No. 6 – Transport and Customer Service

Inquiry into road tolling regimes

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Contents

1 Executive Summary

In 2016-17 the Legislative Council Portfolio Committee No. 2 - Health conducted an inquiry into road tolling with similar Terms of Reference (Road tolling in New South Wales). Transport for NSW provided a submission ('Previous Submission') and the NSW Government responded to the inquiry report in 2018. This submission builds on the evidence in the Previous Submission, and is updated to reflect the significant progress since in the construction of Sydney's motorway network, the resulting travel time savings delivered for motorists and the additional cost of living relief measures offered by the NSW Government.

The NSW Government's $108.5 billion infrastructure program is one of the largest in the world, and includes $71.5 billion of investment into roads and public transport projects being delivered as part of a plan to make journeys on the transport network faster, safer and more convenient.

This unprecedented investment has been fundamental in supporting jobs and growth during one of the most challenging periods in the State's history, the Covid-19 pandemic.

The Government's 'user pays' toll road program is a crucial element of this infrastructure program, as it enables the State to bring forward the creation of an extensive and much-needed motorway network, while maintaining its fiscal integrity. As a result, motorists experience the benefits of faster and safer journeys years or even decades sooner than would be possible if the State was to publicly-fund new motorways.

The State's motorway construction program – funded significantly through tolling– is an intrinsic part of our future transport framework. However, it should also be noted that the NSW Government is investing approximately $21 billion over the next four years in planning, building and maintaining free roads, including the M12 and Sydney Gateway. Furthermore, the State is investing across a range of mega public transport projects to provide more convenient alternatives to road travel, including Sydney Metro West, Sydney Metro – Western Sydney Airport and Sydney Metro City & South West, as well as Parramatta Light Rail and the More Trains More Services program which is providing more frequent services on the existing Sydney Trains network. Together, the NSW Government's investment in roads and public transport will shape NSW cities, centres and communities for generations to come.

Sydney's motorway construction program will result in thousands of cars and trucks being removed daily from local roads – returning these roads to local communities for local use and improving safety and liveability. Motorways also save billions of dollars wasted through congestion - the cost of which is estimated to have been around $9.63 billion in 2020 and increasing beyond $10 billion in 2021.

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.

Over 950,000 trips are made on Sydney's toll roads every day. Sixty per cent of motorists in Sydney pay less than $10 a week in tolls. The average toll road user is paying $23 per week, which compares to $17 per week paid by the average public transport user.

A range of measures are offered by the NSW Government to ease cost of living pressures, including for Sydney motorway users.

The Toll Relief scheme is one of the more than 70 rebates or discounts offered by the NSW Government to reduce the cost of living. The scheme was introduced in 2018 to

reduce the cost of living for owners of privately-registered vehicles who are frequent toll road users.

Since its introduction, more than 460,000 customers have benefited from about $164 million in Toll Relief, including more than 300,000 drivers receiving free registration:

- In 2019-20: more than 200,000 people received toll relief, including free registration for 117,000.
- In 2020-21: more than 170,000 people have benefitted (including 98,000 free registrations) as at March 2021.
- An average of around $350 per claiming eligible NSW toll road user.

The separate Cashback Scheme also remains in place for motorists using the M5 South West.

In addition to Toll Relief, the NSW Government has introduced:

- Green slip reforms, enabling vehicle owners to save on the cost of their green slips.
- The FuelCheck online tool which assists drivers to find the cheapest fuel at NSW service stations closest to them.
- A forty per cent reduction in motor vehicle weight tax for camper trailers and caravans.
- Toll rebate on large towed recreational vehicles.

2 Tolling regimes on NSW motorways

Inquiry term of reference a) an updated review of the tolling regimes in place on different roads and an explanation for the differences between each

In October 2014, the NSW Government approved a broad set of principles for tolling for Sydney's motorways. These principles have been, and currently are, used to guide future tolling decisions on Sydney's motorway network.

These principles are:

1. New tolls are applied only where users receive a direct benefit.
2. Tolls can continue while they provide broader network benefits or fund ongoing costs.
3. Distance-based tolling for all new motorways.
4. Tolls charged for both directions of travel on all motorways.
5. Tolls charged reflect the cost of delivering the motorway network.
6. Tolls take account of increases in expenses, income and comparable toll roads.
7. Tolls will be applied consistently across different motorways, to the extent practicable, taking into account existing concessions and tolls.
8. Truck tolls at least three times higher than car tolls.
9. Regulations could be used so trucks use new motorway segments.
10. Untolled alternative arterial roads remain available for customers.

2.1 Types of tolls

Several different forms of toll exist on the Sydney motorway network, including:

- **A flat rate toll** - traditional tolling method where there is a fixed toll for use of the motorway, regardless of the distance or time travelled. Flat rate tolls are usually applied where there is a single entry and exit point. There is currently a flat rate toll on the M5 South West, M2, Cross City Tunnel, Lane Cove Tunnel, Eastern Distributor, and NorthConnex.
- **A distance-based toll** – the toll is calculated based on the distance travelled on the motorway. Toll gantries are located at entry and exit points on the motorway and record a vehicle's electronic tag or number plate details to calculate the applicable toll. Currently, Westlink M7 and WestConnex M4, M8 and M5 East have distance-based tolling.
- **Variable time of day tolls** – the toll is calculated based on the time of travel. Vehicles travelling outside of peak periods pay a lower toll than vehicles travelling during the peak. There is currently variable time of day tolling on the Sydney Harbour Bridge and Sydney Harbour Tunnel.

2.2 Current toll charges (1 July 2021)

Sydney's motorway network includes both public and private toll roads. Further detail on the private roads and their respective Public Private Partnership agreements, including contract or project summaries, can be found on the NSW Treasury website at https://www.treasury.nsw.gov.au/projects-initiatives/public-private-partnerships.

The following is a summary of each of the tolling regimes across NSW.

2.2.1 Sydney Harbour Bridge

Direction charges / Tolling method	Southbound / Time of day
Cost – Class A (cars)	$2.50- $4.00 depending on time of day
Cost – Class B (trucks)	$2.50- $4.00 depending on time of day
Escalation rate	None
Contract date	Government owned
Concession term end date	N/A Government owned

2.2.2 Sydney Harbour Tunnel

Direction charges / Tolling method	Southbound / Time of day
Cost – Class A (cars)	$2.50- $4.00 depending on time of day
Cost – Class B (trucks)	$2.50- $4.00 depending on time of day
Escalation rate	None
Contract date	June 1987
Concession term end date	August 2022

2.2.3 WestConnex M4

Direction charges / Tolling method	Each Direction / Distance based
Cost – Class A (cars)	$1.42 flagfall + $0.5266/km maximum toll of $8.52
Cost – Class B (trucks)	$4.27 flagfall + $1.5798/km maximum toll of $25.58
Escalation rate	Greater of CPI or 4% (present until 2040) Greater of CPI or 0% (2041 until 2060)
Contract date	December 2014
Concession term end date	December 2060

2.2.4 WestConnex M8 / M5 East

Direction charges / Tolling method	Each direction / Distance based
Cost – Class A (cars)	$1.42 flagfall + $0.5266/km maximum toll of $7.23
Cost – Class B (trucks)	$4.27 flagfall + $1.5798/km maximum toll of $21.70
Escalation rate	Greater of CPI or 4% (present until 2040) Greater of CPI or 0% (2041 until 2060)
Contract date	November 2015
Concession term end date	December 2060

2.2.5 M5 South West (subject to cashback)

Direction charges / Tolling method	Each direction / Fixed
Cost – Class A (cars)	$4.90
Cost – Class B (trucks)	$14.70
Escalation rate	Greater of CPI or 0% per quarter
Contract date	February 1991
Concession term end date	December 2026 (originally 2014, extended as part of upgrade arrangements). Following expiry of this concession, M5 South West will form part of the WestConnex concession, expiring in December 2060

2.2.6 Hills M2

Direction charges / Tolling method	Each direction / Fixed
Cost – Class A (cars)	$8.28 (North Ryde mainline) $4.14 (Pennant Hills Rd) $2.93 (Windsor Rd) $2.45 (Lane Cove Rd) $4.14 (Herring & Christie Rd) $4.14 (NorthConnex)
Cost – Class B (trucks)	$24.84 (North Ryde mainline) $12.42 (Pennant Hills Rd) $8.79 (Windsor Rd) $7.35 (Lane Cove Rd) $12.41 (Herring & Christie Rd) $12.42 (NorthConnex)
Escalation rate	Greater of CPI or 1% per quarter
Contract date	August 1994
Concession term end date	June 2048 (originally May 2042, extended as part of upgrade arrangements)

2.2.7 Eastern Distributor

Direction charges / Tolling method	Northbound / Fixed
Cost – Class A (cars)	$8.37
Cost – Class B (trucks)	$16.75
Escalation rate	Greater of 37.5% CPI + 62.5% Average Weekly Earnings (AWE) or 1% per quarter
Contract date	August 1997
Concession term end date	July 2048

2.2.8 Cross City Tunnel

Direction charges / Tolling method	Each direction / Fixed
Cost – Class A (cars)	$5.97 (Main tunnel) $2.81 (Sir John Young Cres)
Cost – Class B (trucks)	$11.93 (Main tunnel) $5.63 (Sir John Young Cres)
Escalation rate	Greater of CPI or 0% per quarter
Contract date	December 2002
Concession term end date	December 2035

2.2.9 Westlink M7

Direction charges / Tolling method	Each direction I Distance based
Cost – Class A (cars)	42.29 cents/km capped at $8.46
Cost – Class B (trucks)	$1.2687/km capped at $25.38
Escalation rate	CPI per quarter
Contract date	February 2003
Concession term end date	June 2048 (originally February 2037, extended as part of NorthConnex financing)

2.2.10 Lane Cove Tunnel

Direction charges / Tolling method	Each direction / Fixed
Cost – Class A (cars)	$3.46 (Main tunnel) $1.73 (Military Rd E-Ramp)
Cost – Class B (trucks)	$11.63 (Main tunnel) $5.81 (Military Rd E-Ramp)
Escalation rate	Greater of CPI or 0% per quarter for Class A Greater of CPI or 1% per quarter for Class B
Contract date	December 2003
Concession term end date	June 2048 (originally January 2037, extended as part of NorthConnex financing)

2.2.11 NorthConnex.

Direction charges / Tolling method	Each direction / Fixed
Cost – Class A (cars)	$8.28
Cost – Class B (trucks)	$24.83
Escalation rate	Greater of CPI or 1% per quarter
Contract date	January 2015
Concession term end date	June 2048

2.3 Motorways under construction

The NSW Government is continuing to invest in Sydney's road infrastructure to address the existing gaps in the transport network. Of the $71.5 billion being invested in public transport and roads in NSW over the next four years, $13 billion has been committed for pre-construction activities for the Western Harbour Tunnel and Beaches Link Program, including the Warringah Freeway upgrade, and for the delivery of motorways including M6 Stage 1, Sydney Gateway (not tolled), and the remainder of WestConnex (M4-M5 link tunnels and Rozelle Interchange).

These projects support thousands of direct and indirect jobs and drive NSW's continuing economic strength:

- WestConnex: more than 16,000 jobs;
- Western Harbour Tunnel: approximately 15,000 jobs; and
- Stage 1 M6: more than 5,000 jobs

Since the Previous Submission, a number of toll roads have opened to the public including NorthConnex and WestConnex M4 and WestConnex M8. Looking ahead, the remaining components of WestConnex; the M4-M5 Link Tunnels and the Rozelle Interchange are due for completion in 2023, M6 Stage 1 in 2025 with procurement underway for the Western Harbour Tunnel. As noted in the Previous Submission, these projects could not be delivered without tolls to support their financing.

2.3.1 Westconnex – Stage 3

The third and final stage of WestConnex is now under construction. This final stage is divided into two parts:

- The M4-M5 Link Tunnels will provide new 7.5km twin tunnels linking the New M4 at Haberfield and the M8 at St Peters. The expected travel time savings, including use of the New M4, is approximately 40 minutes on a journey from Parramatta to Sydney Airport. The travel time saving from St Peters to Haberfield is expected to be approximately eight minutes. The M4-M5 Link Tunnels project is being delivered by the WestConnex toll road operator.
- The Rozelle Interchange will provide connectivity to City West Link and future connection to Western Harbour Tunnel. It also provides a toll-free connection to Iron Cove, which will reduce traffic on Victoria Road by up to 50 per cent. The project will also deliver new active transport links and up to 10 hectares of new open space to the local community. The Rozelle Interchange is being delivered by Transport for NSW.

WestConnex Stage 3 will have a maximum toll of $5.12 (in 2021 dollars) and be subject to an overall cap for passenger vehicles as discussed in Section 3.

2.3.2 M6 Stage 1

The M6 Stage 1 will be a tolled motorway of twin four-kilometre tunnels linking the M8 Motorway at Arncliffe to President Avenue, Kogarah.

The tolling regime for the project is consistent with other recent motorway projects. The motorway tunnel is proposed to be tolled at a flat rate of $2.44 (in 2021 dollars) each way. Heavy vehicles will pay three times the toll of light vehicles, reflecting the greater wear and tear that trucks have on our roads. This is consistent with other recent motorways including WestConnex and NorthConnex.

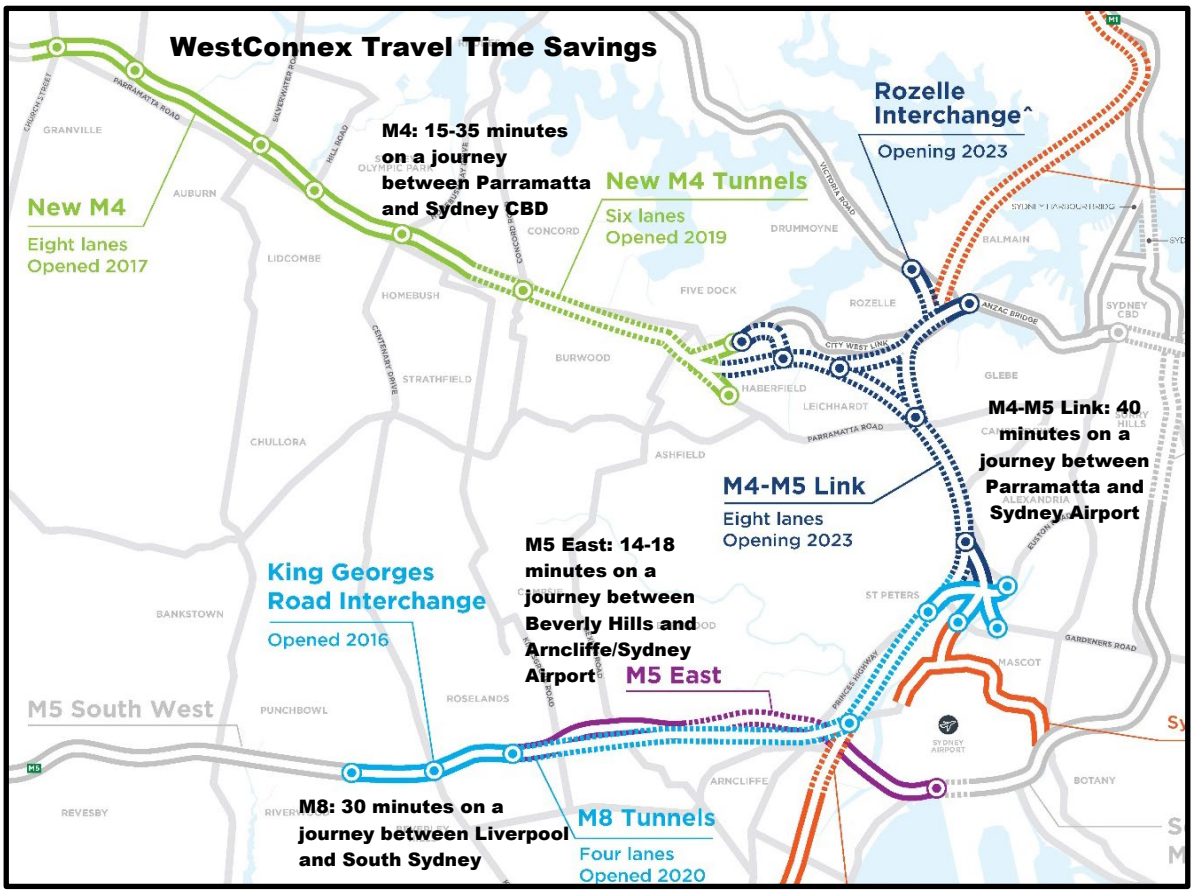
On 24 May, NSW Government announced a $2.52 billion contract to construct the project had been awarded to CPB Contractors and UGL in a joint venture with Ghella. Construction is due for completion in 2025.

3 Cost and benefits of WestConnex

Inquiry term of reference b) the total cost paid by drivers in tolls for the WestConnex toll road over the life of its contract, and the extent to which this represents value for money

The WestConnex Updated Strategic Business Case, publicly available on the WestConnex website, confirms a Benefit Cost Ratio for the project of 1.71 without wider economic benefits and 1.88 with wider economic benefits. The total project benefit, including wider economic impacts, is expected to be $24.339 billion, and provide an overall project Net Present Value (NPV) of $10.792 billion.

WestConnex is one of the largest infrastructure projects in NSW at $16.8 billion, providing more than 30km of continuous motorway and creating an estimated 16,000 jobs during construction. When completed, WestConnex will enable significant improvements in travel times, productivity, reliability and accessibility for the community and businesses. The new motorway will also provide crucial support for Sydney's long-term economic and population growth, which is projected to include greater than $20 billion in economic benefits to NSW. The travel time savings are also substantial as outlined in the map below



By removing traffic from surface roads and local streets, WestConnex will provide a catalyst for urban transformation. For example, WestConnex will 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. This includes delivery of a new public park of up to 10 hectares at the former Rozelle rail yards for the community of the inner west, as part of Stage 3 of WestConnex (the Rozelle Interchange).

In August 2018, the NSW Government sold a 51 per cent stake in the project for $9.3 billion, returning to the NSW public a return greater than the equivalent share of the project's construction costs. At the time the NSW Treasurer noted: "The transaction not only funds the completion of the congestion-busting WestConnex, but will allow the Government to inject billions more towards infrastructure projects like new schools and hospitals".

3.1.1 WestConnex benefits for motorists

While the total amount of WestConnex tolls collected will not be known until the completion of the concessions, motorists are already experiencing some of its significant benefits. Once Stage 3 is open, the expected travel time savings are approximately 40 minutes on a journey from Parramatta to Sydney Airport.

Prior to delivery of WestConnex, key Sydney corridors were heavily congested. The M5 East opened at capacity in 2001 and had the slowest typical travel times of any motorway in Sydney. A single incident could add hours to travel times. There was no capacity to meet future demand requirements. However, motorists have already begun to enjoy the benefits of substantial travel time savings with the opening of the first two stages of WestConnex.

New M4 Tunnels

- Since the tunnels opened in July 2019, drivers are experiencing travel time-savings across the length of the New M4 averaging 15 minutes in the morning peak and 35 minutes in the evening peak.
- Traffic along sections of Parramatta Road has been reduced by almost a third.
- Traffic figures also show a significant reduction in the number of heavy vehicles and trucks along Parramatta Road.

M8

- Motorists are saving up to 30 minutes between Liverpool and South Sydney, with average travel times halved and peak hour speeds doubled.

M5 East – since the opening of the M8

- A morning peak hour journey has reduced from 21 minutes to around 7 minutes.
- Motorists are saving around 14 minutes per trip (morning peak) and 18 minutes per trip (evening peak) compared to toll free alternative.
- Trips on the entire M5 corridor are now 20 minutes faster in the morning peak.

In addition to travel time benefits, the delivery of the M8 has improved the safety of our roads. For example, crashes are down by a third on the M5 East and over-height vehicle incidents have also dropped 44 per cent.

3.1.2 WestConnex tolling regime and principles

As noted above, WestConnex offers substantial benefits to motorists, local communities and NSW. However, the delivery of this project was only feasible and able to be delivered in the proposed time frame through a tolling regime.

WestConnex is being delivered and operated under a Public Private Partnership arrangement where revenue risk has been transferred to the WestConnex entity. This means that the private sector entity bears the risk that traffic volumes fall below forecast, over the life of the concession. However, the concessionaire must also share revenue upside with the State where revenues exceed certain levels as specified in the applicable Project Deeds.

Key project objectives of WestConnex included “user-pays contributions to support funding in way that is affordable, equitable and fair” and for the project to “fit within the financial capacity of the State and Federal Government’s…” The WestConnex Updated Strategic Business Case, is publicly available at https://www.westconnex.com.au/media/yejnwxmw/westconnex-updated_strategic_business_case.pdf.

In developing the approach to tolling for WestConnex, the 2012 Infrastructure NSW State Infrastructure Strategy recommended: "the tolling arrangements for WestConnex ... be based on experience on other roads, in particular the M7. It is proposed that WestConnex's tolls will comprise a distance-based charge, a flagfall charge and a maximum toll cap".

4 Geographical and productivity tolling impacts

Inquiry term of reference c) the impact, and the geographical distribution of the impact, of toll costs on NSW drivers and on productivity

Overall, NSW drivers pay a relatively small amount each year on tolls. Analysis by Transport for NSW shows that:

- almost 60 per cent of motorists spend less than $10 a week on tolls, with more than 85 per cent spending less than $40 a week.
- the total weekly average toll spend is $23 per week. This compares to the average spend on adult Opal cards of $17 per week for public transport.
- the top 15 per cent spend more than $40 a week, and;
- the NSW Government introduced the Toll Relief scheme to reduce the cost of living for frequent toll road users.

Toll prices for each motorway are made publicly available through several sources including Transport for NSW's website (https://roads-waterways.transport.nsw.gov.au/sydney-motorways/toll-charges/index.html), the toll tag provider Linkt (https://www.linkt.com.au/sydney/using-toll-roads/toll-calculator) and road signage where practical and safe to do so.

Where suitable roadside locations are available, toll price signage is provided for toll roads that have a fixed toll (such as the M5 South-West).All road signage must comply with Transport's signage and line marking guidelines, to ensure safety of drivers, safety of operations and maintenance as well as effective communication.

Quarterly traffic data on Transurban's toll roads is published in accordance with Transurban's obligations under an Undertaking accepted by the ACCC on 29 August 2018 under section 87B of the *Competition and Consumer Act 2010 (Cth)*. The data can be found at https://nswtollroaddata.com

5 Tolling relief programs

Inquiry term of reference d) the extent of toll relief provided in NSW and whether it is adequate

The NSW Government provides various programs that reduce the cost of travel on toll roads in NSW.

Toll Relief

Toll Relief provides free vehicle registration for drivers who (in 2020-21) have spent $1,352 or more on tolls in the previous financial year (an average of $26 a week).

Drivers who have spent $811 or more during the previous financial year (an average of $16 a week), will be eligible for half-price registration.

Drivers simply need to link their e-tags to their MyService NSW account and ensure their vehicle details are up-to-date. Then when they renew their registration, the discounts are instantly applied.

Since its introduction in 2018, more than 460,000 customers have so far benefited from a total of $164 million in toll relief, an average of around $350 per claiming customer.

Of those, more than 300,000 drivers received free registration and the rest got half price registration. This includes more than 200,000 people receiving toll relief in the 2019-20 financial year (with 117,000 getting free registration) and over 170,000 benefiting in 2020-21 (98,000 free registrations), as at March 2021.

Large towed recreational vehicle toll rebate

A rebate is available to vehicles towing a caravan, boat trailer or horse float.

The scheme applies to all of Sydney's toll roads, with the exception of the Sydney Harbour Bridge and Sydney Harbour Tunnel which has a single toll for all vehicles.

M5 Cashback Scheme

The NSW Government's M5 South-West Cashback Scheme allows NSW residents to claim back the value of tolls (excluding GST) paid while using a vehicle registered in NSW for private, pensioner or charitable use on the M5 South-West Motorway.

5.1.1 Other cost of living relief programs offered by the NSW Government

In addition to direct toll relief and the above measures, the NSW Government has also introduced:

- Green slip reforms, enabling vehicle owners to save on the cost of their green slips.
- The FuelCheck online tool which assists drivers to find the cheapest fuel at NSW service stations closest to them.
- A forty per cent reduction in motor vehicle weight tax for camper trailers and caravans.

6 Transparency of tolling contracts

Inquiry term of reference e) opportunities to increase transparency for the public, particularly over how tolling contracts are negotiated and varied, and the extent to which tolls are paid

Toll prices, including when and how they increase, are determined by contract negotiations, business cases and policy decisions before any concession is granted.

Major infrastructure projects in NSW, including toll roads, are already subject to rigorous oversight. There are well established processes that assist Government in making balanced assessments and decisions, based on objective evidence, supported by appropriate consultation. A range of agencies such as Transport for NSW, NSW Treasury, Infrastructure NSW and the Department of Planning, Industry and Environment are involved to ensure adequate independent checks and balances. In particular, Infrastructure NSW undertake rigorous independent assurance of business cases to ensure they deliver value for money.

Such processes include the development of strategic plans and application of merit tests, preparation of detailed businesses cases, independent assurance, competitive tendering to ensure value for money, as well as formal planning approvals (including environment impact assessment) under the *Environment Planning and Assessment Act 1979.*

In addition, under the *Government Sector Finance Act 2018* (and previously under the *Public Authorities (Financial Arrangements) Act 1987*), the Treasurer must also approve any Government Agency to enter into a joint financing arrangement with a private sector entity to charge tolls.

Tolling agreements are already subject to clear public disclosure requirements. For example, under the NSW Public Private Partnerships Guidelines, a project summary is prepared and published on the NSW Treasury website - https://www.treasury.nsw.gov.au/projects-initiatives/public-private-partnerships/awarded-projects.

Transparency is also protected within the existing regulatory framework. In particular, tollway concession agreements are Class 3 contracts for the purposes of the *Government Information (Public Access) Act 2009* (GIPA) and must be published accordingly - https://roads-waterways.transport.nsw.gov.au/business-industry/partners-suppliers/tenders-contracts/contracts-awarded/class-3-contract-documents.html.

7 Rationale for toll increases

Inquiry term of reference f) the rationale for allowing higher than CPI increases on certain tolls, and for the truck toll being set at three times the toll for car traffic

Escalation is the percentage increase in the toll price applicable to a toll road over a recurring set interval of time, for example each quarter.

Tolling concessions involve a trade-off between the escalation rate, the initial toll price, amount of government contribution, and the length of the concession. While reducing the escalation rate on a toll road may be possible through increasing the government contribution, this comes at the expense of funding other projects and essential services for the community.

As already noted, in October 2014 the NSW Government approved a broad set of principles for tolling of Sydney's motorways. These principles guide tolling decisions on Sydney's motorway network. In respect of CPI increases and truck tolling, the relevant principles include:

- Tolls charged reflect the cost of delivering the motorway network
- Tolls take account of increases in expenses, income and comparable toll roads
- Truck tolls at least three times higher than car tolls

7.1 Escalation

The escalation rates on private tolled motorways are outlined in detail in section 2.2 of this submission.

Toll prices and escalations are set in long-term, legally binding contracts between the NSW Government and motorway companies to support the construction, operation and maintenance of the motorway by the private sector.

Under the contracts, motorway companies have the right to increase prices in line with their contracts. The NSW Government cannot force the companies to freeze or reduce tolls without agreement and compensation.

The escalation rate on tolls, including instances where toll escalation rates are set above CPI, reflects the underlying cost and financing structure of the road. Some NSW toll roads, including WestConnex, the Eastern Distributor and the M2 provide for a minimum 4 per cent toll price escalation per year. This is to attract private investment into motorway infrastructure, therefore reducing the Government contribution toward these projects. This approach enables the Government to invest more taxpayer dollars into other essential infrastructure and services like hospitals, schools and police.

As stated in the Previous Submission, Government needs flexibility when negotiating public private partnerships and the escalation rates on toll roads to ensure the best overall outcome for NSW and the taxpayer is achieved.

Placing a blanket limit of CPI to escalation rates could have the effect of pushing up the initial price on future toll roads. A mandated CPI increase will limit the ability of toll road operators to recover increases in costs which exceed inflation and would impede Government’s ability to attract private investment for future toll roads.

Without sufficient private interest in the market, there is reduced competition, which would likely increase costs for Government, taxpayers and road users and may hinder Government’s ability to bring forward significant infrastructure development.

7.2 Truck tolling

One of the Government's tolling principles is that truck tolls are at least three times higher than car tolls. Commercial vehicles are comparatively heavy users of toll roads when compared to light private vehicles suggesting that commercial users are deriving greater benefits from using toll roads through more efficient movement of goods and services such as productivity, travel time benefits and other operating cost savings.

Current policy also reflects several other factors in addition to the benefits toll roads provide to this group of users:

- The additional wear and tear caused by heavy vehicles. Charging higher prices for vehicles that cause more road damage is generally a consistent approach applied to road user charges like registration where heavy vehicles pay more.
- Larger vehicles take up considerably more road space than cars.
- Heavy vehicles and freight are key demand drivers for building new motorways and increase construction costs. For example, one of the main benefits from NorthConnex is the reduction in truck movements on Pennant Hills Road. Prior to the opening of NorthConnex up to 5,000 trucks per day were expected to be moved off Pennant Hills delivering road congestion and environmental benefits to local communities. As of March 2021, the daily number of trucks using NorthConnex is now over 6,000.
- As most heavy vehicles are commercially owned and operated, they are typically able to claim operating costs including tolls as tax deductions and in some cases can pass on these costs to their customers.

8 Tolling costs for trucking businesses

Inquiry term of reference g) the ability or otherwise of trucking businesses to afford increases in tolling charges and the extent or otherwise of their ability to pass this through

As discussed in section 7 and in the Previous Submission, trucks attract higher toll charges due to the higher benefits they derive from tolls roads as well as the higher costs they impose on the road. In terms of benefits, the reduced travel times, reduced wear and tear, and lower operating costs, boost productivity which in turn leads to higher rates of economic growth.

The ability of trucking business owners to afford increases in tolling charges or pass through these costs differs for individual businesses. The costs of tolls are partially offset for businesses as many heavy vehicles are used for commercial purposes and therefore the cost of tolls can be claimed as a tax deduction.

9 Tolling assurance arrangements

Inquiry term of reference h) opportunities to increase the assurance to the public that tolling arrangements represent the fairest possible outcome, including the appropriateness of involving an independent agency such as Independent Pricing and Regulatory Tribunal (IPART) in the determination of tolls and their escalation

The Government already has well-established processes for setting tolling arrangements that ensure decisions are in the public interest. A range of agencies are routinely involved to ensure adequate independent checks and balances. Infrastructure NSW also undertakes rigorous independent assurance of business cases to ensure they deliver value for money.

The Independent Pricing and Regulatory Tribunal's (IPART) core functions relate to pricing of monopoly services provided by or on behalf of government, such as electricity, water and public transport. Extending IPART's role to regulating toll roads is not necessarily consistent with its core function or its areas of expertise.

Further the introduction of a new form of regulatory control could result in changes to the risk profile for private finance, which could make it more difficult to secure funding and could increase the costs of building toll roads into the future. Where there is uncertainty around the future tolls that can be charged, there would also likely be decreased competition in the market to deliver toll roads as the risk would be too great for the private sector on such large projects.

If any new form of regulatory price control impacted existing concession agreements this would have extremely negative impacts. This could both risk the ongoing financial viability of the toll road as there would be insufficient revenues to repay financiers, as well as potentially trigger financial compensation from the government to the private operator.

10 Impact on government finances from private tolling operators

Inquiry term of reference i) the long term impact on government finances as a result of toll roads being wholly or partly operated by non-government entities

The operation of toll roads by non-government entities reduces the cost burden of roads on taxpayers and offers additional financial benefits, through investment in technology, efficient asset management and cost savings through economies of scale. Private operators are specialists in operating and maintaining toll roads and can apply this knowledge and expertise to provide the service in the most efficient way possible to benefit the NSW taxpayer.

The private sector does not control the price of tolls and therefore, its ability to increase profit is through increasing traffic volumes and efficient asset management. To achieve an increase in traffic volumes, operators are incentivised to provide a fully open and well-maintained road, and a safer driving experience.

Investing in the latest technology is a key factor in achieving this. Technological innovation has improved safety and reduced the impact of incidents on our roads. For example, Transurban's toll roads include advanced technological systems, such as automatic incident detection, which alerts operators almost immediately of an incident, enabling a response to be quickly coordinated and deployed. This technology enables incidents to be cleared quickly, and minimise costly congestion impacts on the network.

In addition, partnerships between Government and private toll road operators are ensuring NSW is keeping pace with technological advancements and future infrastructure is appropriately designed and planned to support it. For example, Transurban has partnered with the NSW Government to test Connected and Autonomous Vehicles on Sydney's orbital network. These trials identified a number of recommendations in respect of road surfaces, signage, tunnel design and maintenance approaches to be rectified or considered in future projects, ensuring Sydney's infrastructure will be able to accommodate these vehicles in the future and minimise costly upgrades.

Similarly advances in asset management enable operators to undertake the most efficient approach to maintenance while ensuring the maximum performance and longevity of the asset. In addition, at the end of the concession, the private operator is contractually required to hand the road back to Government to a prescribed level of condition ensuring Government is not incurring unforeseen costs. Well-maintained roads also reduce the risk of crashes and the strain on our healthcare system.

Furthermore, operators that have investments in multiple roads, can realise synergistic benefits and economies of scale in their operations. This enables operators to provide a more competitive offer to government, reducing the long-term operating cost of the toll roads and freeing up resources for other projects.

11 Impacts of toll road financing

Inquiry term of reference j) consideration of the impact of direct or debt financing of road projects, including what would have been the impact on regional road projects of the direct financing of WestConnex

The NSW Government is investing $71.5 billion in roads and public transport projects over the next four years, helping to grow the NSW economy and create tens of thousands of jobs. This includes investing more than $9 billion in regional road and transport projects in FY 2021-22

However, the scale and timing of the infrastructure program would not be possible if the NSW Government had to fully fund the building of toll roads. In other words, committed public transport or free road projects (or hospitals or schools) would have to be significantly delayed or scrapped altogether if the NSW taxpayer had to fully fund the construction of motorways in place of tolls.

In response to the Terms of Reference, “Direct financing” is understood to mean funding projects from the NSW Government budget, without charging users or generating revenue from the assets. “Debt financing” is understood to mean borrowing money to deliver projects (either by the NSW Government or the private sector), to be repaid over an extended period of time once the project has reached completion, through user charges, for example tolls.

11.1 Government policy on tolling

The NSW Government budget is limited, and its agencies must evaluate the most efficient and timely way to deliver an ever expanding list of infrastructure projects. The need to deliver infrastructure has never been more urgent in the context of supporting our recovery from the devastating Black Summer bushfires in early 2020 and the continuing COVID-19 pandemic.

As outlined above, the NSW Government is investing more money than ever before in regional roads, with more than $9 billion announced in the 21-22 NSW budget alone for regional transport and roads. This includes transformative projects like the Great Western Highway upgrade, the Coffs Harbour Bypass and the upgrade of the Princes Highway and Newell Highway, as well as small projects that make a big difference to the everyday lives of people in regional communities.

The NSW Government is investing $1 billion in building a stronger, safer local road network in the regions. This includes $500 million through the Fixing Local Roads program to help councils repair, maintain and seal priority roads in their local communities and $500 million through Fixing Country Bridges to replace ageing timber bridges with stronger, safer structures more resilient to natural disasters.

To support the scale of NSW’s infrastructure program, including these vital regional and rural programs, road tolling is required to continue to reduce pressure on budgetary resources.

The Australian Government's National Public Private Partnership Guidelines (2015) sets out the basic case for user charging such as tolls:

"Unless the infrastructure generates sufficient third party revenue through user charges, the cost will impact on net debt and rating agency metrics regardless of how the project is financed.

Broader use of specific revenue raising measures such as direct user charges and value capture opportunities may help to provide alternative funding sources for suitable infrastructure projects.

Continued use of direct user charges such as toll roads can also assist with funding infrastructure investment by alleviating the pressure on general government revenue sources and can enable infrastructure investment to be brought forward."

Thus, in consideration of project delivery options, tolls or other user charges alleviate the pressure on limited Government revenue sources and enables infrastructure to be delivered sooner. By building projects faster the Government is able to bring forward the benefits of reducing travel times, alleviating congestion and improving safety and reliability.

11.2 Rationale of a debt financing approach

The cost of delivering major road infrastructure, including the long term operations and maintenance of motorways, can be borne by the NSW public as a whole (direct), or on a “user-pays” basis (debt-financing). A debt financing approach in the context of this inquiry requires the levy of tolls or user-charges to repay financiers for the construction and ongoing maintenance of the infrastructure asset. The user pays for the right to use an asset and in return receives benefit from the asset. For example, a driver could use a congested un-tolled road to take their journey to work or instead could pay to drive on a toll road and receive the benefit of a faster, safer and more reliable journey.

The value of travel time savings from toll roads are substantial and will only increase. The cost of congestion in Sydney is estimated to have been around $9.63 billion in 2020, and increasing past $10 billion in 2021. Without toll roads, congestion would be an even greater burden on the community, meaning slower journeys and more time wasted in traffic.

The NSW Government has adopted the ‘user-pays’ model to bring forward the delivery of billions of dollars of infrastructure projects, enabling drivers to get to their destinations sooner. Tolling provides a crucial revenue stream that enables much needed investment in extending and enhancing the current motorway network, delivering new segments of motorway years earlier than would be otherwise possible.

For most recent toll road projects, private sector debt and equity was raised to fund the upfront construction costs of the infrastructure. Once the project is complete, the cost of building the road (gradually repaid to the financiers) and its ongoing maintenance, is met by the users of the road through toll charges. The cost of paying for the road is borne by its beneficiaries.

The approach of using debt financing and user charges to fund infrastructure lowers the overall burden on taxpayers, freeing up capacity to invest in other essential services such as hospitals, schools, public transport and regional roads.

The Tolling Principles state that tolls should only be introduced on roads where road users see a direct benefit, and for these, the user-pays principle is appropriate. For example, NorthConnex opened in October 2020, and traffic is already exceeding expectations. Approximately 6,000 trucks per day have been removed from Pennant Hill Road reducing heavy traffic on local streets, along with providing 40% faster travel times. The number of trucks using NorthConnex exceeds the original estimate of 5,000 trucks per day.

Similarly, WestConnex M8 opened in July 2020 with motorists are saving up to 30 minutes between Liverpool and South Sydney. Average travel times have been halved and peak hour speeds doubled. Also since the opening of the M8, the number

of crashes have reduced by more than a third on the parallel M5 East, which was previously one of the Australia's most congested motorways.

The NSW Government is conscious of cost of living pressures and the costs of tolling on household budgets. For this reason, it provides toll relief programs as discussed in section 5. Unlike other global cities including London, Stockholm, Singapore and Milan, Sydney does not have a congestion tax and is targeting infrastructure investment to resolve congestion issues.