PEOPLES WESTCONNEX INQUIRY

NSW PARLIAMENT, JUBILEE ROOM - Friday 6 May, 10am – 2pm

Session 4: Governance - WestConnex planning, contracts and business case

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I won't make any platitudes, I'll just get going; I've only got five minutes. The City of Sydney has led the economic analysis of the WestConnex project and there's a range of reports that you can access on their website including some by that excellent planning and economics business, SGS, who've done extensive analysis of the Business Case.

From an economic perspective I think the main problem with WestConnex is we actually don't really know how it's going to perform. Will it reach capacity really quickly, or will it be a ghost road like the Cross-City Tunnel? We've got a pretty good development process in New South Wales which involves stages to get your project up to the mark, and we do Preliminary Business Cases, and then we do a full Business Case and along the way, there's a Gateway Review which is an independent review of the process.

But the recent WestConnex Strategic Business Case is not a term that I recognise; it's not a Business Case and it's not a Preliminary Business Case—it's got bits of each. But critically, I think, from our perspective, it doesn't examine rigorously the potential transport alternatives to WestConnex. It's really short.
So if you look at the East-Link Business Case for Melbourne, it was about 3,000 pages and it had lots and lots of information about alternative transport options. The WestConnex Strategic Business Case is 300 pages and it looks at the alternative public transport options in one page in a table.

So the economic assumptions that deliver the WestConnex Benefit-Cost Ratio—BCR (it means above one is good; under one is sub-investment grade) OK—under the WestConnex Strategic Business Case, we've got a number of 1.71 but the basis for this 1.71 is highly questionable. You can get on the websites and have a look at some of the work SGS has done. I'll just give you one example. When the RMS reviewed the failure of Lane Cove Tunnel and the failure of the Cross-City Tunnel, they recommended that short travel time savings under five minutes shouldn't be counted in the BCR, okay? Because, if you're going to go from A to B, and you're saving five minutes between Stanmore and the Airport, you're not going to bother paying $8, are you? So when you take that out of the WestConnex BCR—which the RMS recommended that you should do—you immediately lose 500 basis points of the BCR, so 1.71 becomes 1.2.

If you do that with other flaws in the Strategic Business Case, you get down lower to a sub-investment grade pretty quickly. I'll use two examples: one's induced demand—that's other things coming and using it—the other one is the opportunity cost of losing access to the land at St Peters and Rozelle. In a real Business Case, you've actually got to look at what the alternative would be like and it might be something like what they've done at Harold Park, let' s say, but on a smaller scale. I walk my dog down there. So you have to look at what you've lost in the way of open space amenity and also development opportunity by using the road. So if you take that out, you pretty much get to a sub-investment case. And the BCR is also vulnerable to any changes in capital costs. In the last two years of development, the core cost of $14.8 billion hasn't changed; the extra $2 billion is an add-on, but the $14.8 billion hasn't changed in any of the project development work they've done.

We tend to focus on governance for WestConnex in this Development Stage, but I'm going to assume that it does get built and look at future governance issues which I think are just as important in looking at why it shouldn't be built, because the capital cost and the revenue it generates are central to the governance and how it operates.

So the WestConnex structure is to incubate the asset through the ramp-up stage, and then when the revenue is at a stable level, to sell the concession to the private sector, OK. That may even be designed to recover the cost of the capital that you could have used on something else. Now, if the road is a ghost road, like the Cross-City Tunnel, the only way you can start to recoup that cost is to extend that extension out in time to make it valuable for the private sector. Now currently road concessions in Sydney are about 40 or 50 years. The WestConnex model uses 37 years, so this might not be enough to recoup those capital costs and we've just leased our ports out for 99 years and I'm wondering how long we may have to provide a concession to the private sector to buy WestConnex.

The third thing I want to raise is we need to look at any future WestConnex concession doesn't lock out competing modes of public transport, so in other words, you have to use WestConnex. We need to understand that decisions on Sydney's future transport network and governance are also not wholly in the hands of our Government or the people; they're also dictated by the dominant toll road concession holder, which is Transurban, which controls the Eastern Distributor, the Cross-City Tunnel, the M5, the M7, the M2, the Lane Cove Tunnel and is now building NorthConnex. Transurban mounted a successful unsolicited proposal for NorthConnex based on its uniqueness through controlling the linking toll roads. On this basis it's got an almost unassailable position for future unsolicited proposals, so WestConnex then becomes a catalyst for more roads because when you build WestConnex, you create the platform for West Harbour Tunnel; when you create the platform for West Harbour Tunnel, you create the platform to build an east-west northern beaches toll road. Transurban cuts across all those and would have a really strong competitive position in mounting an unsolicited proposal for that project at the time of its choosing. Okay, I'll stop. Thanks.