

Full federal funding for affordable tolls on M4 WestConnex*

Ian Spring - Revision, 6th September 2017

www.borrowandbuild.com.au

The elite of national and international expert opinion has been strongly recommending to the Federal government that it take advantage of record low interest rates to borrow, by selling bonds, to fund a long-term program of transport infrastructure renewal across the nation.

Other politicians have reacted favourably, but the Federal government has done nothing. Only community pressure will force them to pay attention to this real opportunity, which could save people in the West from 40 years of unaffordable toll agony on M4 WestConnex.

The PPP system has failed

The present system of relying on PPPs, public private partnerships, for the provision of new infrastructure has failed miserably.

PPPs are a hopelessly over-expensive way of providing a basic community service. These private investments have much higher overheads and borrowing costs, and a need to pay tax before supporting inflation indexed dividends to shareholders, and finally need to pay back debt.

Of course this very high PPP cost structure means very high tolls, so too few projects have been workable, and many clear needs have been left unfulfilled. In fact PPPs have been so over-expensive that the majority of those built over the last decade or so have failed financially. (See below)

These failures were followed by a pattern of other private PPP operators taking over these assets at distressed prices, but still charging the high tolls which caused the low traffic problem in the first place. Ugh!

Persisting with these high tolls has led to underutilisation of these community assets. And to rat running and consequent road traffic congestion stresses to communities all along the routes adjacent to these expressways.

Full federal funding better

The unique advantage of full federal (public) funding is that tax feedbacks, first from construction, and later from the ongoing boost to the economy from the new works, would be an effective offset to bond interest costs-the major long-term cost of such projects.

With these tax feedbacks many more projects would be financially workable. And tolls and ticket prices on fully federally funded projects would be a fraction of those funded by inherently unaffordable PPPs.

Public funding could start with M4 WestConnex where tolls could be 50% to 75% lower than those currently proposed. This would be a huge relief to people in the West.

History shows the way

We have been here before. Full federal funding is in a way a return to the pre-war period when the states had the helpful combination of income taxing powers and infrastructure responsibility.

In NSW in the 1920s-30s, with this combination in place, and the benefits of tax feedbacks and the way debt shrinks with time both well understood, the State borrowed and transport infrastructure building boomed. And Sydney was soon recognised as having one of the six best transport infrastructure setups in the world.

New assets created at that time included The Sydney Harbour Bridge, a comprehensive full-scale suburban rail system covering most of the then city, good ferry services, and some 200 km plus of tram lines filling the gaps, and bringing cheap public transport into virtually every corner of the then city.

Current plans unworkable

People in the West are already suffering from worries about jobs, and the high costs of housing, higher education, transport, other education, electricity and gas, and general cost of living pressures.

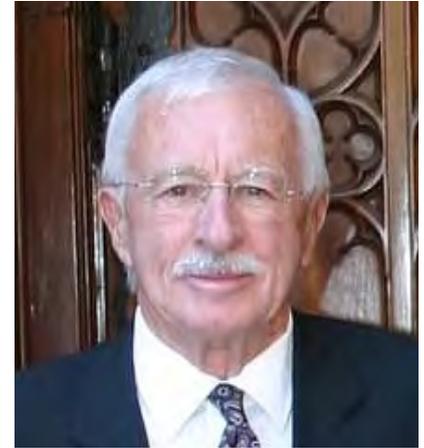
With wages stagnant, and insecure in many cases, they are in no position to take on a new high toll burden galloping away at 4% per annum! It would be punitive.

Federal government must act

The Turnbull government should respond to the strong advice it has received from great numbers of authority figures and major institutions from within Australia and from around the world to borrow and build the new transport infrastructure we so desperately need. (See back page on advice)

A strong steady long-term commitment is needed. Ideological daydreams of "waiting for the market" are just that, daydreams.

This Government, which seems to be going through a dull period (to put it mildly), should recognise that such a commitment, which



Ian Spring is a completely independent retired business manager who has been attempting to foster federal borrowing for transport infrastructure.

Ian Spring BEd (Hons)Syd

ispring@bigpond.net.au

Ph: 02 9712 5339

www.borrowandbuild.com.au

would give jobs and growth, and wonderful new infrastructure too, would surely be an ironclad vote winner - for all the right reasons.

Why throw the next election away by inaction when you can win it by doing the right thing?

The full 20 year federal funding plan should start with the federal government purchasing the various stages of M4 WestConnex as they are completed, and having it run with much lower tolls.

Action people can take

40 years is a long time to suffer unaffordably high PPP tolls.

Please support full federal funding by using social media, and encouraging your children to do the same thing promoting the idea -

**Full federal funding
for affordable tolls
on M4 WestConnex**

* See back page of this paper, and the full major paper at:

www.borrowandbuild.com.au/20yearplan.pdf

www.borrowandbuild.com.au

THE AUSTRALIAN - June 4, 2016

Public-private road deals take their toll on investors

ROAD TO NOWHERE				
Asset	Daily forecast	Daily actual	Opened	Collapsed
EastLink, Melbourne	258,000	134,000	2008	2011
Clem7, Brisbane	60,000	21,000	2010	2011
Airport Link, Brisbane	130,000	77,000	2012	2013
Lane Cove Tunnel, Sydney	100,000	55,000	2007	2010
Cross City Tunnel, Sydney	95,000	30,000	2005	2007

Sydney's web of toll roads is expanding, but have we reached saturation point? **Matt O'Sullivan** reports.

For people like Jason Cook, the daily commute from NSW's Central Coast to Sydney quickly eats into their time and hip pockets.

Driving his ute to building sites in Sydney's inner south where he has been working lately is about \$70 a week in tolls, once he passes electronic gates for the M2 in the city's north, the Lane Cove Tunnel and the Harbour Tunnel.

It can escalate further if Cook, who installs sprinkler systems, is working in Sydney's outer west. "It would be up to \$120 a week for me, especially if I go out west. It is expensive," he says.

Unfortunately, paying tolls doesn't always mean a quick journey. Traffic can "back up massively" on the Harbour Tunnel at peak hours, Cook says, and "we are just sitting there".

Stretching for 135 kilometres, the labyrinth of toll roads in Sydney makes up one of the largest user-pays road networks in the world.

That is before a nine-kilometre NorthConnex tunnel linking the M1 and the M2 in Sydney's north opens in 2019, and the more controversial 33-kilometre WestConnex toll road - to be Australia's largest - is completed in stages by 2023. Now, the state government has advanced plans for more: a 37-kilometre extension to the F6 in Sydney's south from Waterfall to Arncliffe, and a 14-kilometre tollway from the inner west to the northern beaches known as the Western Harbour Tunnel and Beaches Link.

Leaked documents marked "cabinet in confidence" have revealed the government is looking at slapping \$3 tolls for cars on northbound journeys of the Sydney Harbour Bridge and Harbour Tunnel to help cross-subsidise the \$14 billion cost of building a Western Harbour Tunnel and Beaches Link.

"What they are saying is that everyone coming from the north shore has to pay more of a toll so the good burghers of the northern beaches get into town quicker," says the City of Sydney's chief transport adviser, Terry Lee-Williams. "There aren't enough people on the northern beaches to justify such an expensive tunnel. [The government has] already admitted it doesn't stack up financially because you have to toll other people to fund it."

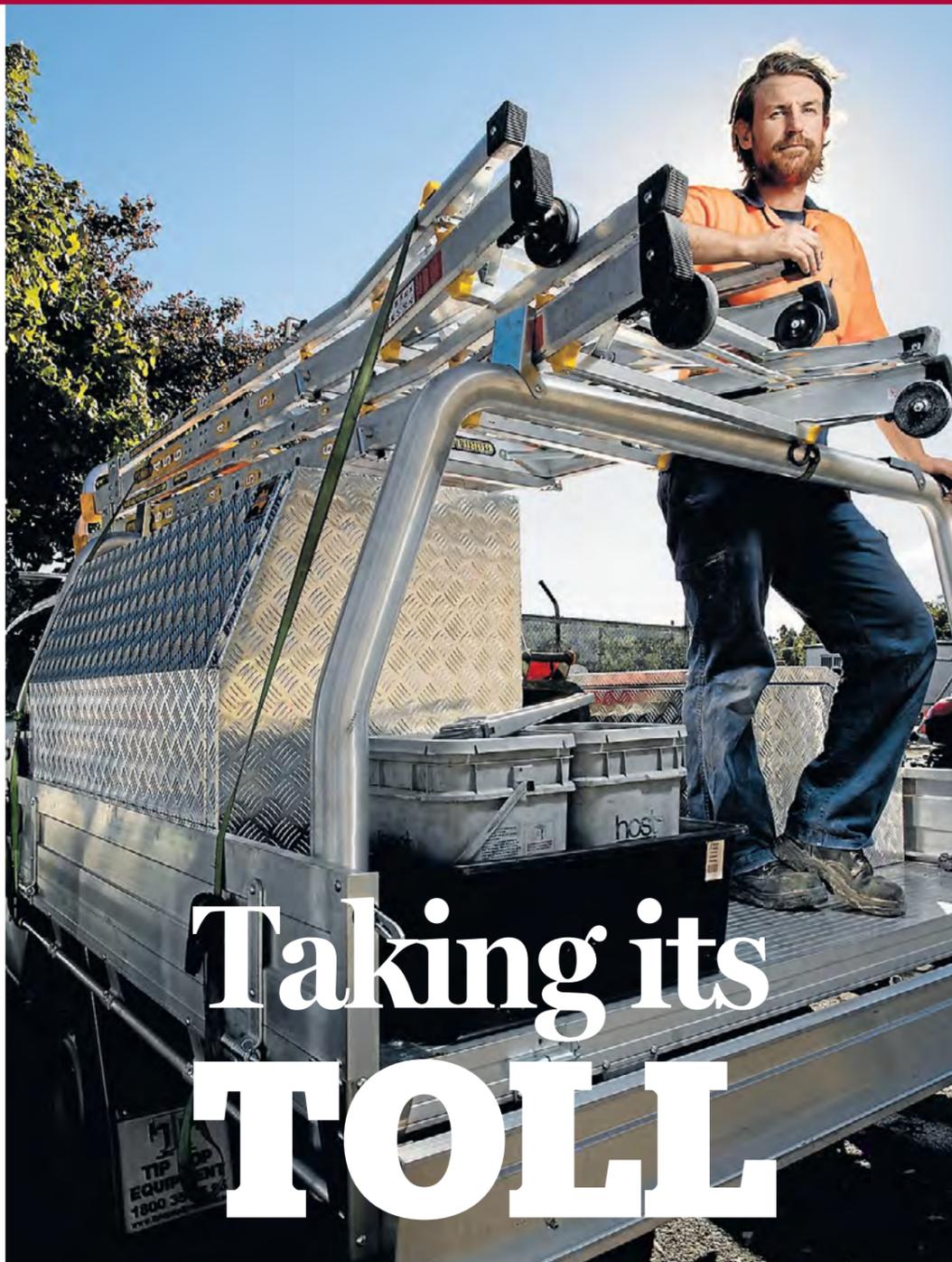
Donning a hard hat and safety vest as she showcased a new section of tunnel for WestConnex this week, Premier Gladys Berejiklian batted off questions about whether extra tolls should be placed on the Harbour Bridge and Tunnel to help fund the new road projects. "I'm not going to enter a conversation that we have not yet had within government," she remarked.

THE PRESSURES on Sydney's road and public transport networks are huge - and growing. An extra million people are forecast to call the city home within the next decade.

Berejiklian has a difficult balancing act in appeasing residents in Sydney's south and the blue-ribbon north, as well as those within her own party who want priority to be given to projects in or near their electorates. Weeks before several byelections in northern Sydney in April, she declared her government was "absolutely committed" to building the long-promised link to the northern beaches.

Federal Liberal MP for Mackellar Jason Falinski says the Beaches Link is "absolutely necessary".

"All the records show that the three



Taking its TOLL

of the 10 worst-congested roads are either on the northern beaches or feed to the northern beaches," says Falinski, a former staffer to NSW Transport Minister Andrew Constance.

In Sydney's south, the likes of the Liberal MP for Cronulla and state's Attorney-General, Mark Speakman, believe work needs to start on extending the F6 "sooner rather than later" because of worsening congestion. In fact, it has been a high priority for him since he declared in his inaugural speech to Parliament in 2011 that he would "fight for the F6 extension".

Irrespective of which toll road is given priority, Sydney motorists are already in danger of reaching "toll saturation" - a point where they are unwilling to spend more on tolls no matter how much time travelling they can save, warns David Hensher, the director of the Institute of Transport and Logistics Studies at Sydney University.

While helpful in prodding motorists into paying directly to use roads, Hen-

sher told a state inquiry into Sydney's toll roads that the benefits are not always evident because "we basically have congestion across the whole network".

"What that tells me is we have got the toll wrong," he said.

Hensher, who describes Sydney as "a great laboratory to study toll roads" given their large number, believes it's time for network pricing - that is, basing tolls on aspects such as the time of day motorists travel. In other words, motorists would pay more to drive during peak hours than they would at quieter times.

The federal government is inching towards a larger debate about a national scheme whereby motorists are charged on how far they drive in return for cheaper petrol and lower registration fees.

"What the Prime Minister and I have said is that it's a 10- to-15-year road journey," Urban Infrastructure Minister Paul Fletcher said this week, when asked about road-user charging.

The government will appoint within the next few months an "eminent Aus-

Jason Cook, who works at building sites throughout Sydney, pays up to \$120 a week in tolls to get to jobs. Photo: Janie Barrett

tralian" to oversee a study into how motorists pay for roads, and how new roads will be funded and existing ones maintained, at a time of declining revenue from sources such as fuel excise.

For any government, road-user charging is a political minefield. Well aware that the next state election in 2019 will be won or lost in the city's west, NSW Labor has campaigned strongly against the re-introduction of tolls on a widened M4 between Parramatta and Homebush.

After all, tolling of motorists raises questions of social equity, because it is often people from lower socio-economic households in Sydney's west who are paying. A leaked "Final Business Case" for the Western Harbour Tunnel and Beaches Link even noted the discrepancies: "Northern beaches residents express more sensitivity to price compared to current toll road users, most likely reflecting their lower exposure to toll roads."

With their constituents among the biggest users, mayors in western Sydney are pushing for distance-based tolling and a cap on the cost of journeys for multiple motorways, as well as lower charges for off-peak travel.

"Most of the toll roads are in western Sydney ... so we are paying another set of taxes for being Westies," Blacktown mayor Stephen Bali says. "Whichever way you look at it, we are coping it and there needs to be a rethink - we are all tolled out."

Yet the dilemma for government officials considering a shake-up of the tolling regime is that the concession agreements for many of the existing toll roads still have decades to run, and vary in how annual increases in tolls are calculated. Tolls on the M2 and Eastern Distributor are, due to contracts signed with private companies, rising at 4 per cent a year, more than twice the present rate of inflation.

In an era of low wage growth, it means a greater proportion of motorists' income is funnelled into paying for toll roads. Under so-called escalation rates for WestConnex and NorthConnex, their tolls will also rise at 4 per cent annually or at the rate of inflation, whichever is greater.

ASIDE FROM the early losses for investors in the Cross City and Lane Cove tunnels, Sydney's toll roads have been delivering super-profits for their owners - notably Transurban, which has a stranglehold over them.

Tony Harris, a former NSW auditor-general, says the state's toll network has been "poorly based and poorly organised" since tolls were imposed on the M4 in the early 1990s.

"This has led to motorists paying the private sector significantly more than the economic or efficient cost of those roads," he says. "It has also meant that the government has not been able to introduce a soundly based system for pricing the use of tolled roads."

Harris believes a simple solution is for the government to become the owner and funder of new road projects, noting that the cost of its borrowings tend to be lower than the private sector's.

Or, if the government is curbed in its ability to borrow, an alternative would be to allow the private sector to fund, maintain and develop a road. It would then be leased to the state for a payment that reflects traffic volumes.

Importantly, Harris contends that these approaches will allow the government to alter tolls to reflect demand. This, he says, helps overcome the inefficiencies of a fixed toll.

"It is a big step but if you don't want to do that you have to put up with what we've got, which is episodic tolls on people and greater congestion," he says.

"The problem is getting bigger and bigger."



20 year borrow and build plan gives affordable transport, jobs and growth *

Ian Spring - Page 1 of Substantial revision, 6 September 2017 *

The world is awash with cheap money. And this is a specific proposal for an ongoing 20 year federal borrow and build program, based on the sale of very long term Commonwealth bonds equivalent to 1% of GDP each year, to completely update Australia's transport infrastructure. As explained in the next column, this program would also give us affordable commuter transport.

With a federal borrow and build program commuters and other transport users would see major changes within five years, transformational changes within ten years. And they would get efficient comprehensive transport networks covering essentially all the nation's needs by 2037. Interstate high-speed rail could follow.

The program would bring these huge benefits, and with GDP growth, would leave a surprisingly low level of infrastructure debt, only 11% of the then GDP in 2037. And for the 20 years add 150,000 new jobs, and increase in GDP of 2.7%, and a big drop in unemployment.

The unique advantage of full federal (public) funding is that tax feedbacks, first from construction, and later from the ongoing boost to the economy from the new works, would be an effective offset to bond interest costs - the major long-term cost of such projects.

With these tax feedbacks many more projects would be financially workable. And tolls and ticket prices on fully federally funded projects could be a fraction on those funded by totally unaffordable PPPs. Public funding could start with M4 WestConnex where tolls could be 75% lower than those currently proposed. This would be a huge relief for people in the West.

Affordable commuter transport will be a vital necessity in the new open competitive world of trade agreements, where low/no wage growth is inevitable, and high commuter costs are putting ever-growing pressures on lower income earners. Particularly those in the newer outer suburbs of Australia's major cities.

Many calls for action

Last year then Reserve Bank Governor Glenn Stevens strongly recommended a multi-year program of federal borrowing to fix Australia's deficient transport networks.

Glenn Stevens said that such a scheme, based on sale of long-term Commonwealth bonds, would benefit "millions of Australians in their daily lives". Stephens' successor Philip Lowe has supported this concept.

Many others have also advocated such major federal borrowing, including **Anthony Albanese**, Shadow Minister for Infrastructure, Transport, Cities and Regional Development, ex-Premier **Mike Baird** at COAG; Greens Senator **Di Natali**; the IMF; the G20; the **OECD**; **Ross Gittins** of the SMH; leading public figure and chairman of the ANZ bank **David Gonski**; respected businessman **Frank Lowy**; **Peter**

Crone of Coles; **Cameron Clyne** formerly CEO of NAB; **Pauline Hanson** of One Nation, **Chris Richardson** of Deloitte Access Economics, and **Emeritus Professor Frank Stilwell**. And leading economists **Justin Fabio**, **Bill Evans** and **Saul Estlake** were reported (in The Australian in 2014) as saying Debt phobia was 'hobbling chance to borrow and build.'

*Extract from a speech by Reserve Bank Governor Glenn Stevens 10 June 2015.

...infrastructure spending has a role to play in sustaining growth and also in generating confidence.

... And it is perfectly sensible for some public debt to be used to fund infrastructure that will earn a return. That is not the same as borrowing to pay pensions or public servants.

Amenity would be improved for millions of ordinary citizens in their daily lives. We could unleash large potential benefits that at present are not available because of congestion in our transportation networks.

The impediments to this outcome are not financial. The funding would be available, with long term interest rates the lowest we have ever seen or are likely to.

The impediments are in our decision-making processes and, it seems, in our inability to find political agreement on how to proceed.

...we need to create a positive dynamic of confidence, innovation and investment.

* Please read the full 6 page outline at www.borrowandbuild.com.au

34—THE DAILY TELEGRAPH, www.dailytelegraph.com.au Thursday, March 22, 2007

LETTERS

Funding model means states' hands are tied

‘Sixty years of under-investment has left us in our present mess’

Until World War II, NSW, along with the other states, had income-taxing powers and primary responsibility for infrastructure. Thus, when new infrastructure boosted the state economy and lifted taxes, there was an effective offset to borrowing costs. Hence the state's ability to build and fund huge projects.

Australia's problem with infrastructure began in 1942 when, as a wartime measure, the Curtin federal government temporarily took over all income-taxing powers. After the war, despite protests from the states, that became permanent.

Then came the big mistake: primary responsibility for providing infrastructure was left with the states.

Stuck with this responsibility but without the necessary concomitant taxing powers, the states have floundered ever since; and 60 years of under-investment has left us in our present mess.

Private funding cannot fill the gap. It is an expensive model, and only works where there is an urgent need to fix a bottleneck in an existing high traffic area. Even then, further bottlenecks often need to be created to channel traffic to the private investment. The present system is not working. We must move to full federal funding for major transport infrastructure, urban and rural, road and rail.

Ian Spring, Chiswick