An open letter to the NSW Premier on WestConnex, the budget and public transport options

Dear Premier

The NSW Government’s plans to secure private finance for stage-3 of WestConnex face a perfect storm of huge project risk and deteriorating economic conditions. Do you have a “Plan B’’?

Whilst the project faces extreme levels of community opposition throughout inner-west suburbs, you seem to be banking on the assumption that road users will outweigh them by voting with their cars and wallets. But how confident are you about this? How confident is NSW Treasury’s new Secretary, and how confident will private investors be?

Even in isolation, the massive $11.5bn cost of WestConnex stage-3 (in addition to $5.3bn for stages 1 & 2) is beyond precedent. Sydney’s last successful privately-financed toll road, the M7, was a big project at about $2bn in 2005. With 3.5% cost inflation that would be $3bn today. The failed Cross-City and Lane Cove tunnels, which deeply scarred investors, were about $1bn each.

Yet now, on top of WestConnex, we may need to find $14bn for the Western Harbour Tunnel & Beaches Link and perhaps $18bn for the F6 freeway – both of which appear to be necessitated by the traffic that WestConnex will generate. That’s about $49bn without even including the full cost of local & connecting road upgrades that these projects could require, especially due to widely-anticipated budget blow-outs for the Rozelle Interchange and the Sydney Gateway connection from St Peters to Port Botany and Sydney Airport.

But wait, there’s more! In addition to this, over the coming decade or so we need to find over $8bn for the NW Metro, $12.5bn for Metro City & SW, about $10bn for a West Metro (or more if there’s lots of stations), and over $2bn each for CBD-SE light rail and Parramatta light rail. That’s a total of about $74bn just on transport “mega projects” – before we’ve even costed a rail line to Badgerys Creek airport! And then there’s all the usual capital expenditure to maintain & upgrade existing road and rail networks, the Pacific Highway and other regional roads, and not least, the investment needs of our schools, hospitals and other public services, and then all the operating and maintenance costs for all the new infrastructure (in the order of $700m p.a. for WestConnex alone).

NSW’s infrastructure plans seem to have lost touch with reality! To help fund these projects, NSW Treasury’s plan (under former Secretaries & Treasurers) was to use a combination of private finance and proceeds from selling the State’s commercial businesses (totalling $24bn for electricity, ports & Land & Property Information). However, private finance isn’t a charity – it comes at a cost. The investors in the electricity network have simply paid $15.9bn up-front for the $1bn p.a. in earnings the government previously had and the $1bn Commonwealth “incentive payment” to NSW is offset by the loss of “tax equivalent” payments that the State previously received from these businesses. Whilst these transactions may have been a good deal for government, the net long term gain is a far cry from the massive cost of planned mega projects. Moreover, after the scars of prior toll-road projects, investors gambling on future toll revenues will demand a hefty premium on new project risks (such as those posed by WestConnex), through higher profits and return on investment, which must then be paid for in the long term by either taxpayers or road users.

UBS had a clear view on the matter, with its originally titled report, “Good for the Economy, Bad for the Budget” - until Premier Baird pushed them to change it – but it’s now looking like they may have

been wrong after all. It may well be the NSW Government’s current plans are actually, *Bad for the Economy & Bad for the Budget!* Mike Baird said, “There is no Plan B” – how about you Premier?

Because despite the headlines of budget surpluses (which are largely a result of dubious accounting), closer examination of NSW Budget Papers shows total State net debt rapidly increasing to $54bn in 2020 ($10bn more than its peak in 2011) and then continue climbing. And that’s without $5bn for the City & SW Metro after 2020-21, maybe another $5bn+ for WestConnex stage-3 (on top of the government’s existing $4.7 bn WestConnex commitment), or anything for the West Metro, Western Harbour Tunnel-Beaches Link, F6 or a Badgerys Creek rail line.

These worrying budget projections are unsustainable (& may see NSW lose its AAA rating soon), despite relying on some rather optimistic assumptions, like 6% p.a. growth in stamp duty revenues (even though the property market is now stalling) and general government expenses growing at an average rate of just 2.15% p.a. after this year, compared to an historic trend of 5-6%. Achieving such low expense growth will presumably involve continued squeezing of public sector wage bills,\(^2\) with no real growth and further rounds of redundancies. Given existing economic concerns about low wages growth, housing affordability and limited disposable income, these budget assumptions seem inconsistent with a WestConnex business case that envisages commuters forking out for a step-change increase in weekly tolls and then annual increases above inflation & wages growth until 2040 – especially given the minimal few minutes that over 50% of users are likely to save.\(^3\) Similarly, commercial vehicle users will be charged three times the standard toll, but will struggle to absorb or pass on these costs to consumers in increasingly competitive and difficult economic conditions.

Work by Professor Hensher, a highly respected transport economist at the University of Sydney, identifies that household budget constraints are a major factor causing actual toll road demand to be drastically less than business-case forecasts (especially for western Sydney drivers on below-average incomes), and the whispers in project-finance markets are that the “rule of halves” should apply to the forecast revenues, given the experiences with previous NSW and Queensland toll road projects. Moreover, while the WestConnex business case consequently looks shaky even based on current paradigms, the Transport Minister is now rightly wondering whether the impending world of autonomous and shared vehicles – which is likely to bring about a convergence of private and public transport – means we may not need more motorways!

All this is now coming to a head as the NSW Government seeks private capital for at least 51% of WestConnex. But contrary to the intended financing strategy, there are not yet any new toll revenues that could give the private sector confidence in Stage-3 demand. If NSW Treasury is worried about the risks, why would the private sector accept them? What happens if they don’t? Will the government burden future generations with increased debt, whether through further up-front capital contributions, or revenue guarantees to a private financier (like taxpayers are still

\(^2\) Although the 2017-18 Budget assumes an average 3.5% p.a. growth in employee expenses over the 4 years to 2020-21, it seems the minimal 0.8% average growth in ‘other operating expenses’ are hiding savings targets that have not yet been allocated to agencies.

funding over $100m p.a. for the Sydney Harbour Tunnel? Credit Rating Agencies and bond markets may not accept this on such a large scale.

Then it will be time – well past time – to look at the alternatives, as the WestConnex business case should have already done. Options like bringing forward the West Metro and other public transport as an alternative, to enable a scaled back WestConnex design, like the City of Sydney’s proposal, and perhaps fewer road lanes and the Metro sharing one lower-cost tunnel along their substantially similar western corridors. Combined with more efficient network operating plans for both trains and buses, this could vastly improve public transport service levels and reduce road congestion, whilst also avoiding the need for the hugely expensive and wasteful City & SW Metro and light rail projects (see davidthorp.net/transport-plan). With those savings, we might just be able to balance the books and pay the rent!

David Thorp
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