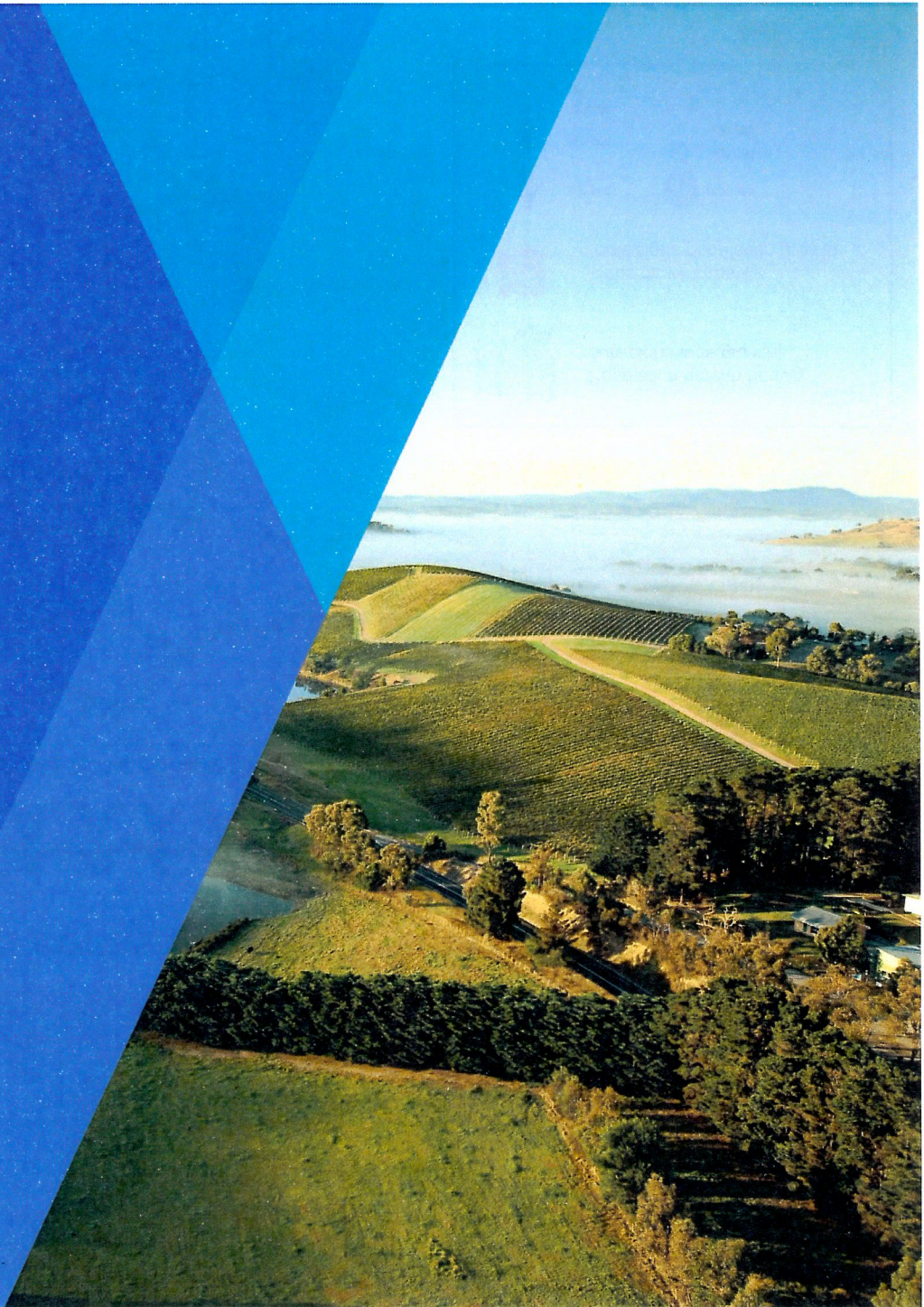


PRESENTATION TO SENATE ECONOMICS REFERENCES COMMITTEE INQUIRY: TOLL ROADS IN AUSTRALIA

Richard Bolt, Secretary
Department of Economic
Development, Jobs, Transport
and Resources



Economic Development,
Jobs, Transport
and Resources



MELBOURNE IS EXPERIENCING SIGNIFICANT GROWTH, WHICH POSES A MAJOR CHALLENGE FOR THE TRANSPORT SYSTEM

Significant population growth centred on Melbourne

	2016	2051
Melbourne:	4.6 m	7.8 m
Regions:	1.2 m	2.2 m



In Melbourne, for every 10 people today...

...there will be 16.9 people in 2051

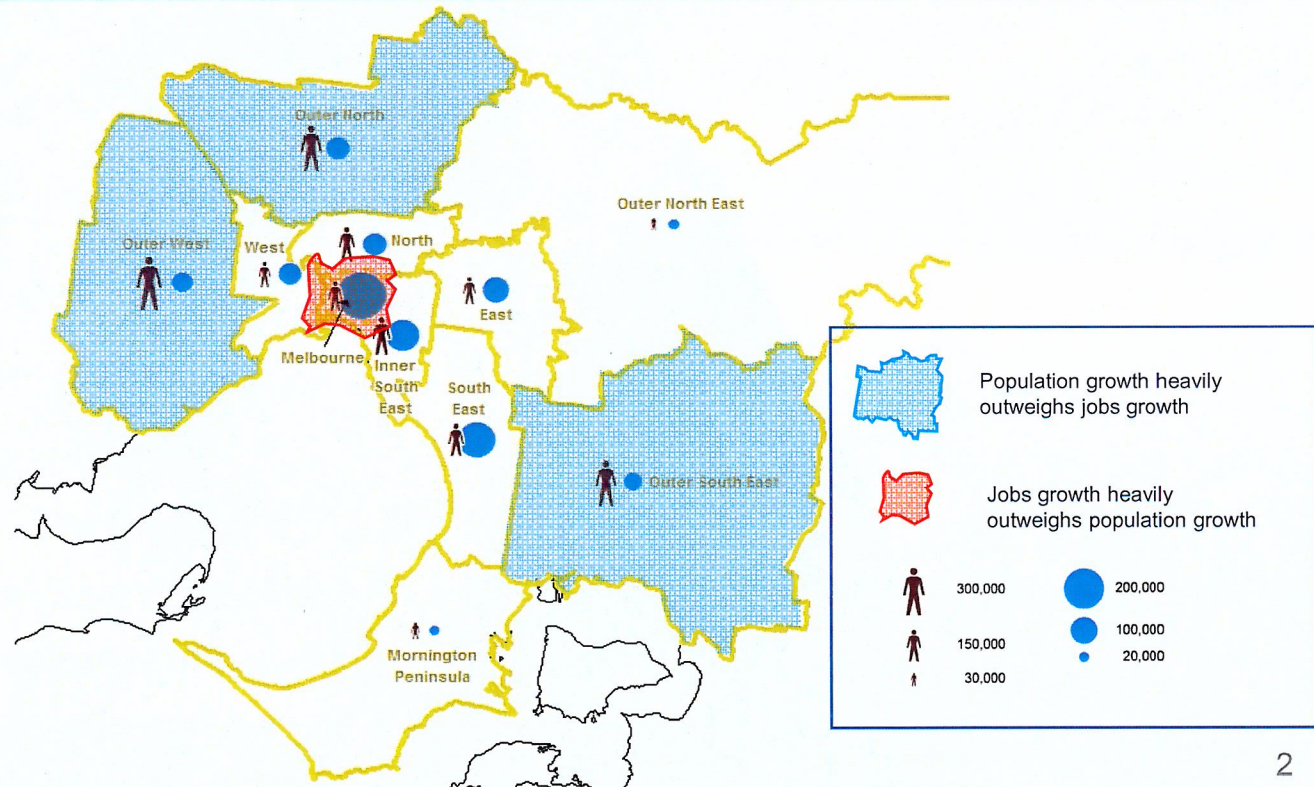
Major population growth is expected in Melbourne's west and north

Major employment growth is expected in Melbourne's centre

This mismatch poses an enormous challenge for transport

To meet this transport challenge we plan to:

1. use existing assets more efficiently
2. reform regulations and systems
3. build new public transport, freight and roads infrastructure



THE VICTORIAN GOVERNMENT IS INVESTING SIGNIFICANTLY IN TRANSPORT IN RESPONSE TO THIS CHALLENGE

A number of significant infrastructure investments have been committed

- Toll roads are only one of the multiple approaches adopted to meet the State's future transport needs

The Department of Economic Development, Jobs, Transport and Resources (DEDJTR) has established a multi-modal approach to transport planning that:

- focuses on journeys rather than modes and
- puts users at the centre

This involves initiatives to better use existing assets as well as building new infrastructure

- Consistent with advice from Infrastructure Victoria

Transport investments include

Metro Tunnel

Level Crossing Removals

Cranbourne-Pakenham Rail Line Upgrade

Mernda Rail Extension

Hurstbridge Rail Line Upgrade

Monash and M80 Freeway upgrades

Thomsons Road Upgrade

Yan Yean Road Upgrade

Chandler Highway upgrade

Purchase of additional rolling stock for regional rail, metro rail, trams

Additional bus services

DEDJTR PREPARES BUSINESS CASES TO INFORM DECISIONS ON WHAT PROPOSALS TO ADOPT

In order to increase transparency, major business cases are now published. We receive many transport and other market-led proposals from the private sector

- These cover a wide range of transport concepts, not just toll roads
- Assessment of market-led proposals is managed by Department of Treasury and Finance

The government prepares its own assessments and business cases for all of these proposals

There is a need to balance the need for transparency and commercial-in-confidence considerations, for both proponents and the State (in subsequent commercial negotiations). Getting this balance right is essential to drive innovation.

BUSINESS CASES INCLUDE DETAILED ASSESSMENTS OF THE COSTS AND BENEFITS OF PROPOSALS AND KEY ALTERNATIVES

There are a range of guidelines that are followed to guide these assessments, produced by

- Department of Treasury and Finance
 - Economic appraisal, market led proposals, high-value/high-risk projects
- Australian Transport Assessment and Planning Guidelines
- Infrastructure Australia
- DEDJTR

We also have in place internal governance arrangements that focus on robustness and consistency of assessments, supported by a demand forecasting reference case to provide a common set of assumptions for use across different project assessments

- Other jurisdictions apply lower discount rates (based on social time preference and inter-generational value lenses), such as the UK who use a 2.5% discount rate. The State, national guidelines and Infrastructure Australia currently require a 7% discount rate to be used (based on a commercial lens)

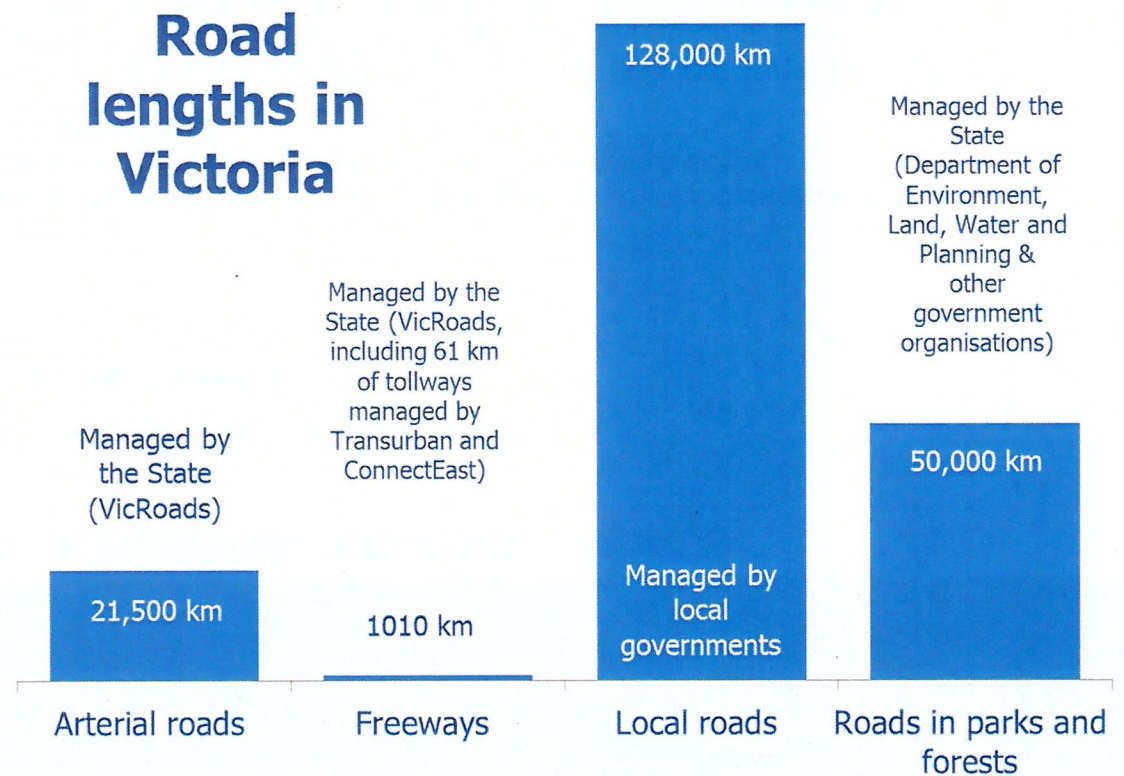
These arrangements apply to all transport investments

- Regardless of the pathway by which they come to the government
- Whether they relate to toll roads or other transport projects
- They also apply to both the State-managed strategic transport demand model (known as VITM) and to private sector models such as the Veitch Lister Zenith model
 - The Zenith model has been used to assess a range of toll roads in Victoria but is also used by other jurisdictions, including the Commonwealth

THERE ARE CURRENTLY TWO TOLL CONCESSIONS IN VICTORIA

Toll concessions are CityLink and Eastlink

These roads make up 61 km of the declared road network



THERE ARE TWO TOLL ROAD PROJECTS UNDERWAY IN VICTORIA

1. West Gate Tunnel
2. CityLink Tulla Widening Project

Toll road proposals, like proposals for other infrastructure, are considered against the needs of the transport system. Key factors include

- Changing industry and residential locations and the implications of these changes for access needs
- Locations where the transport system is operating at or near capacity in peak times
- Need for improved transport outcomes, such as improved reliability, reduced delays, better access, improved transport choices and more efficient freight movements
- Opportunities offered by committed changes to the transport system
- Opportunities offered by and needed to support urban renewal

TOLLING PRINCIPLES ARE USED AS THE BASIS FOR PROJECT-SPECIFIC TOLLING STRATEGIES

The tolling principles allow a balance to be set between:

- The impacts of tolls on the transport network
- Commercial and revenue implications
- Broader directions for pricing and cost recovery

Specific tolling strategies are then developed for each project based on these principles

The State seeks to do the following:

- Reduce or eliminate taxpayers' payments for roads
- Couple tolls with PPPs that put financing risks on the PPP contractor
- Provide value for money through procurement strategies
- Balance the need for cost recovery, optimisation of road use, sharing the burden of tolls in proportion to the benefits received and avoiding adverse impacts on decisions relating to competing road projects

Modelling is used to help understand likely impacts of tolling strategies, with monitoring to check if behaviour is consistent with expectations.

- Changes to some heavy vehicle tolls occurred earlier this year. Early analysis of the limited information available so far indicates there was no discernible immediate impact on heavy vehicle numbers, suggesting there has not been any significant diversion of trucks.



**INFRASTRUCTURE VICTORIA HAS
RECOMMENDED THE STATE DEVELOP
ROAD PRICING ARRANGEMENTS IN THE
LONGER TERM**

Infrastructure Victoria's advice notes that road pricing may result in better outcomes than tax instruments of fuel excise and fixed annual registration fees

The State is working with the federal government and other jurisdictions to consider future pricing arrangements, via the Land Transport Market Reform process endorsed by COAG

BUSINESS CASES RELY ON COMPLEX BUT CRITICAL DEMAND FORECASTS AND ECONOMIC APPRAISAL

For significant projects, DEDJTR has put in place a process of independent scrutiny as part of its governance arrangements

- These processes link to both national arrangements and arrangements within Department of Treasury and Finance

This recognises that there are limitations to all models, including models used to forecast transport demand, and that continual refinement is needed of underlying assumptions in light of new information, how models are used and model capability

Independent scrutiny arrangements are applied to demand forecasts, economic appraisal and costings used in business cases

THE AIM OF INDEPENDENT SCRUTINY IS TO UNCOVER ISSUES THAT CAN THEN BE ADDRESSED IN SUBSEQUENT WORK

Some issues are able to be addressed as a business case is refined.

- There are normally a series of iterations in preparing a business case so that it is progressively refined.
- Steps include initial demand forecasts, validation and confirmation of forecasting performance of demand models, preliminary economic appraisal, preliminary options assessment, refined demand forecasts, sensitivity testing and refined economic appraisal

Other issues require changes to capability of models or additional information to be collected outside the business case time frame.

- DEDJTR has undertaken an independent review of its in-house modelling capability and Infrastructure Victoria has prepared a similar review
- A plan for future model development has been prepared to address issues identified in peer reviews and the independent reviews of modelling capability
- Peer reviews have also highlighted the need for updated and consistent values of time and reliability to be used in economic appraisal. DEDJTR is investing, with the Commonwealth, in updating values of time estimates

BUSINESS CASES ARE PREPARED AT A POINT IN TIME

The details of how a project will be implemented and how it will achieve its objectives are continually refined. The information available for a business case is limited to what is known at that point and costs, in particular, are therefore necessarily preliminary.

The State refines project designs through the environment assessment processes. It actively seeks innovations through procurement processes, which can provide additional value to the public. These sometimes impact not only the value provided but also the costs.

Consequently final costs of a project should be expected to change from those estimated when a business case is being prepared. Whether a project is delivered within the costs expected should be judged on the basis of what is agreed to be delivered, rather than the preliminary costings in a business case.