New South Wales
TREASURY

The use of PPPs for infrastructure investments in urban areas

Case Study:

Sydney's Cross City Tunnel

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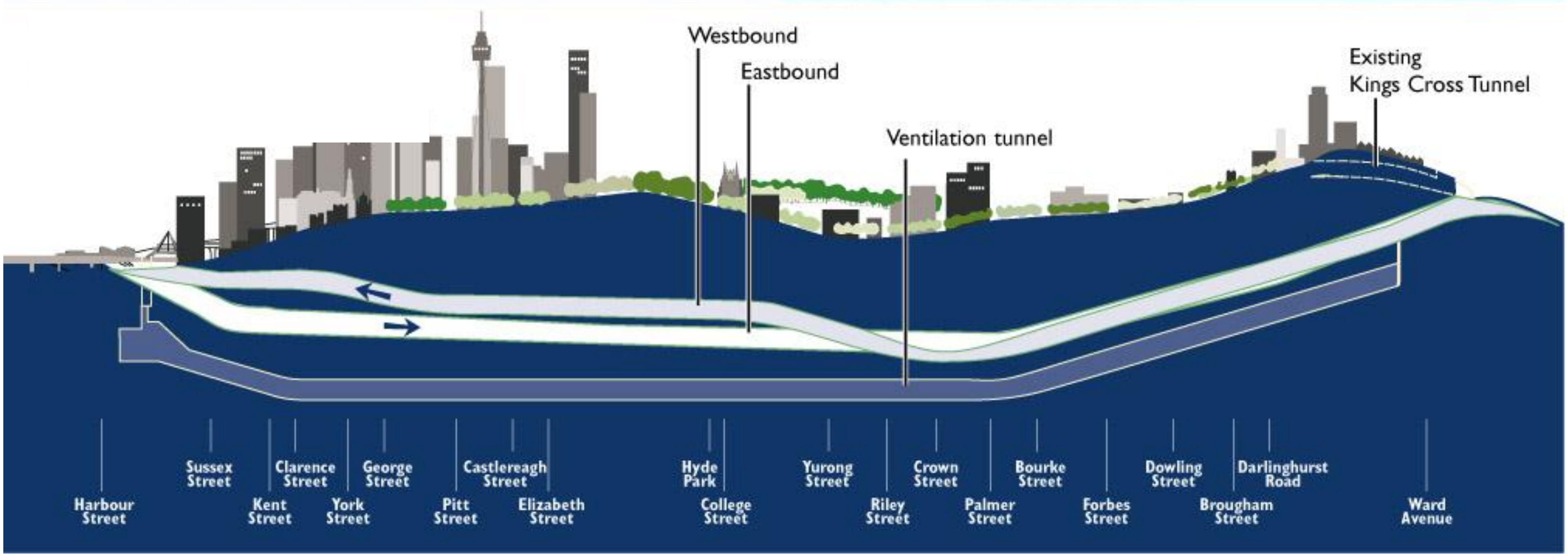
THE PROJECT

- Finance, design, construct, operate and maintain two new 2.1 km east-west toll road tunnels under Sydney's CBD
- Design, construct and commissioning direct cost $680 million
- Concession term 30 years from completion of the tunnels
- Contract transferred market risk to the private sector
- Awarded to the CrossCity Motorway consortium: Bilfinger Berger / Baulderstone Hornibrook / Deutsche Bank
- There were 292 planning conditions for the Cross City Tunnel



THE WINNING BID

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- Two-stage tender process: Eight Consortia responded to the EOI, with three Consortia invited to submit detailed proposals
- CCM was chosen as the preferred proponent because its non-conforming proposal:
  - Offered innovation in design:
    - a longer and deeper tunnel avoided digging up William St removing significant traffic disruption during construction
    - allowed an increased vehicle speed limit of 80km/h
  - More aggressive traffiic forecasts but within acceptable bounds compared to the RTA’s comparator
  - Up-front payment of around $100m to the RTA

EXPECTED BENEFITS

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- **Reduction in ‘through’ traffic in central Sydney**
  - Ease of traffic congestion
  - Better access to, and movements within, the city for pedestrians, cyclists, taxis and delivery vehicles
  - Improvement in environmental amenity in the CBD for pedestrians, residents, workers and businesses
  - Better air quality in the city

- **Improvement in east-west traffic flows**
  - Motorists avoid 16-18 sets of traffic lights in the CBD
  - Savings of up to 20 minutes during peak periods

ORIGINAL CAPITAL STRUCTURE

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Total Funding Required:	**$ million**
▪ Construction Cost	680
▪ Financing Costs During Construction	160
▪ Development Costs	113
▪ Up-front payment	97
Total Funding Required	**1,050**
Sources of Funds:	
▪ Private Sector Equity	450
▪ Project Debt	580
▪ Pre-Completion revenue and interest earned	20
Total funding required	**1,050**

TUNNEL OPERATIONS

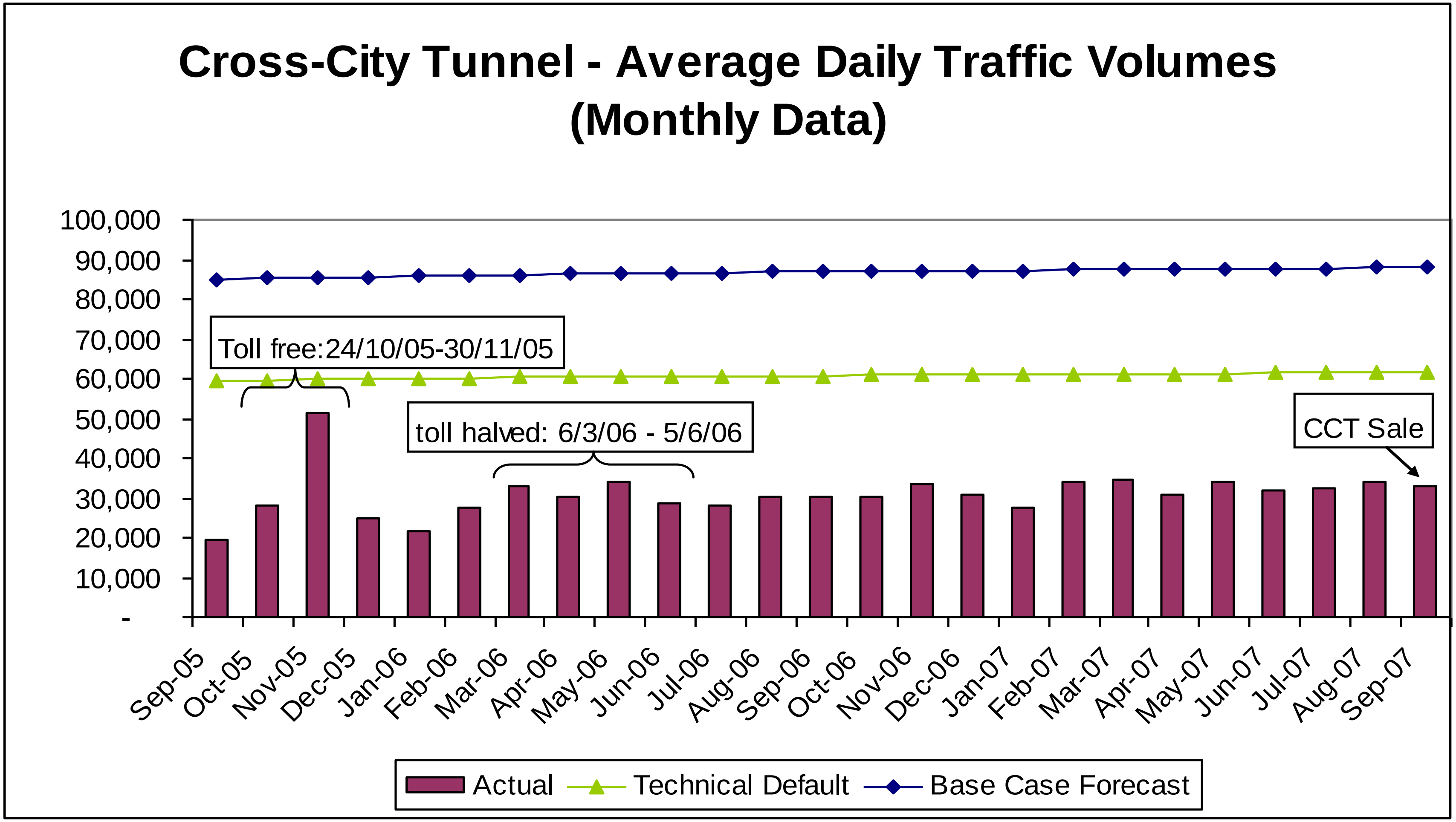
Tolls

- Full electronic tolling (no cash booths – first time in NSW)
- Base tolls: $2.50 cars & $5.00 trucks (March 1999 prices) escalated in line with CPI or 4% per annum
- Opening tolls: $3.52 cars & $7.00 trucks (due to Amending Deed and Escalation)
- Current toll: $4.28 cars & $8.56 trucks

Traffic

- Opened for traffic in August 2005 (2 months ahead of schedule)
- Traffic forecasts around 86,000-87,000 vpd (2006)
- Actual traffic around 30,000 vpd (2006)

Traffic Flows



WHAT WENT RIGHT?

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- ✓ Designed and constructed in very efficient manner
- ✓ Project opened two months ahead of schedule
- ✓ Very little traffic disruption during the construction period
- ✓ Government recovered all of its project tender costs and ancillary work costs (although the recovery of certain ancillary costs received criticism)
- ✓ Market risk was effectively transferred and the tunnel continued to operate despite low traffic volumes and financial stress of the operator

WHAT WENT WRONG?

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- Motorists did not use the tunnel in numbers when opened
- Motorists complained about toll price
- Media criticised Government for closing roads and seemingly forcing traffic into tunnel
- Media frenzy erupted and politicians started to criticise the project, the procurement process and seemingly overly optimistic traffic forecasts
- Community developed negative views about PPPs in general and perceived them as secret deals
- The Cross City Tunnel was a catalyst for a number of PPP – related inquiries in 2005 and 2006, including specific Cross City Tunnel ones

INQUIRIES INTO CCT, PPPs

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- Review of Future Provision of Motorways in NSW, Infrastructure Implementation Group, December 2005
- Auditor-General's Report: Performance Audit: The Cross City Tunnel Project, May 2006
- Cross City Tunnel First Report, Joint Select Committee on the Cross City Tunnel (NSW Legislative Council), February 2006
- Cross City Tunnel Second Report, Joint Select Committee on the Cross City Tunnel (NSW Legislative Council), May 2006
- Inquiry into Public Private Partnerships, Public Accounts Committee (NSW Legislative Assembly), June 2006
- As well other Inquiries/investigations into other PPP projects occurred around the same time

INQUIRIES: ISSUES ADDRESSED

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- Were the surface road changes required?
- Was the upfront payment appropriate?
- How should the toll price be set?
- Were the contract variations in the amending deed appropriate?
- What level of public contract disclosure should be required?

ACTIONS TAKEN

- The New South Wales Government's *Working With Government Guidelines for Privately Financed Projects* were revised in 2006
- NSW Parliament requested new disclosure requirements for PPPs which has resulted in full PPP contracts being released to the public (previously just a contract summary), as well as major contract variations
- Government reversed some of the initial road changes surrounding the Cross City Tunnel corridor
- Influenced road changes and compensation for the then forthcoming Lane Cove Tunnel

CHANGES TO THE GUIDELINES

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- The 2006 revisions to the *Working With Government Guidelines for Privately Financed Projects* included:
  - An explicit value for money test from the perspectives of users and taxpayers in the Public Interest Evaluation
  - Regular Updating of the Public Interest Evaluation with significant changes reported to Government
  - Ongoing community consultation after contract signing, during construction and during commissioning
  - Integration of the Planning Approval Stages and the Government approval stages
  - A requirement for Government approval if the conclusions/assumptions of the business case significantly change due to development approval conditions, changes in costs or revenues or changes in user charges
  - Extending the life of the Steering Committee to the initial delivery phase
  - Requiring Government approval prior to commencing renegotiations on any signed PPP contract

THE SALE

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- Receivers and managers appointed December 2006
- Competitive tender for sale: eight bids were received and five parties were shortlisted
- Issue of condition risk: tunnel and equipment, ventilation equipment, especially with change in facility manager (from Baulderstone's to Leighton's)
- Sold to ABN AMRO (RBS) / Leighton Contractors for $695 million in September 2007 (plus $52m transaction costs)
- New business and finance model based on downward revision of traffic forecasts taking into account actual traffic flows
- Sale effected through a sale of shares and units

SALE: GOVERNMENT'S ROLE

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- The RTA and Treasury's role was to observe and undertake the due diligence of the proposed owners
- The RTA and the Treasurer needed to approve the Amendment Deed, which effected the sale
- Under the sale:
  - Contract stayed in place
  - There was no change in risk allocation
  - There was no change in pricing formula
  - All private sector obligations were transferred to the new owners
- Subsequent to approving the sale: issue of lapsed professional indemnity insurance coverage required special bonding arrangement and further Government approvals

CONCLUSION

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- Whilst the CCT was surrounded by controversy, other toll-roads in Sydney have had very little attention and are running smoothly, eg M2, M5,M4 and M7
- The CCT is now operating smoothly, although at lower traffic levels than originally forecast
- Well run public consultation prior to construction is not a good indicator of the eventual public reaction
- Difficulties in traffic forecasting:
  - Complicated, whole network especially in inner city
  - Sensitivity testing and independent checks are useful but are not fool-proof in predicting the range of possible forecasting error
  - Ramp-up period and the influence of initial motorist resistance
  - The impact of Price Elasticity of Demand
- The GFC has put into doubt the future of the Australian toll road model with full demand and price risk transfer to the private sector