Removing the Metro "Planning Stench"

&

Restoring Confidence in Planning in Sydney

The Berejiklian Model of Reforming

Sydney's Bradfield-Era Rail System

This paper attempts to define the information that is available or should be provided if Ministers, media and the community are to be able to express informed opinions on a matter of genuine intergenerational equity, reportable to current and future generations.

DRAFT FOR DISCUSSION

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The Benefits & Costs of Metro Re/Placement Routes

Privatisation of public assets has been an important topic at national (Qantas and Commonwealth Bank) and state (electricity and ports) levels. One of the most contentious elements is "retention value" which is the calculated yield over time from keeping the assets in public ownership: exceeding it is a hurdle that must be met. This is especially so because privation of long-held public assets is difficult to achieve and the proceeds must not be wasted.

One of the contentions at the changeover from Labor to the Coalition in NSW in 2011 was Labor's attempt to privatise electricity generators through the then Treasurer's fiat, with the resignation of eight board directors and his refusal to release retention value, against a threated royal commission by the Coalition - the then Shadow Treasurer, Mike Baird, saying Labor had vaporised $10 billion of asset value.

Asset conversion has proceeded since but **the hardest target of all in history, the Railways, is going through a quasi-privatisation which has not been quantified or legitimised**.

That system was built over about 160 years and has complex asset and cost features. Sydney's urban fabric developed around it. The answer til recently was sectorisation of lines into separate entities, and franchising of the segments, as in Melbourne, within a subsidised context. Tendering was said to be the only way to improve systemic performance and reduce the need for subsidies. (The "elephant in the room" is the intention of reducing the influence of the rail union and the ways and costs of doing that.)

The replacement mode from July 2012 is Metro trains in conjunction with high-rise residential and commercial buildings in what has become known as the "MTR" or "Hong Kong" model. The system will sit deep under the surface which generally minimises land disturbance although over 50 tall buildings in the Sydney and North Sydney CBDs are being demolished and then rebuilt on a higher scale. No data have been released.

Retention value therefore becomes an issue of system curtailment and asset realisation in looking at the Railways and of complex real estate and train PPPs looking at the Metros. How costs, cash flows and profits are distributed will be complex.

The probity and prudence sides have not been publicly analysed. The unanticipated and other consequences for the Bradfield-era system have not been accounted for in Business Cases, in fact, they have not been mentioned.

Intergenerational equity means passing on a better world than the one we inherited and leaving no bad debt. The rail changes can be reflected through a waste of previous generations' worth, increased congestion and less housing affordability than alternative approaches would produce, delayed benefits compared with sooner costs, and rigid, radial systems unsuited to changed patterns of work and other trips. Under such circumstances, further generations would have to "catch up" unnecessarily. As the Committee for Sydney wrote, *Capturing value is of no benefit unless you ensure it is delivering the right projects. New funding measures need to be partnered with a mode-neutral evaluation, appraisal of transport projects or investments.*

The democratic gap to address, in context, is - *there is no electoral mandate to incur such costs and share such assets without due process* - or *<u>at all if of material magnitude</u>*.

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Context – meaning of the Metros

Labor had promised to build an extensive network of Metro train routes but was defeated by the details as each case came up – the long NW Metro, the West Metro, the CBD Metro, and the Federal Green Line. All were abandoned by Premier Keneally; while the Coalition promised to end "*Labor's planning stench*" and "*The shadow minister Gladys Berejiklian said the metros were doomed if the Coalition won*". That remained the position up to June 2102 when the chronology (below) shifted cataclysmically.

In short, from July 2012 the Coalition resumed the much-derided Labor Metros and added capricious elements. The process has been opaque and even misleading. The impacts on suburban train operations and structures and the complex real estate and other financial arrangements have not been outlined in election platforms and through Parliamentary processes.

The "metro model" was duplication of the Bradfield-era heavy rail lines, especially from Epping to Chatswood and onto the CBD via the Harbour Bridge, then down to Bankstown. This is contrasted with Ron Christie's metro scheme (2001) which was to fill gaps between the radial lines, thus facilitating cross-suburban movements. Passengers will transfer at Epping and Chatswood to/from the north, and Sydenham and Bankstown from the South East and South West.

Baird's Government proceeded with "poles and wires" privatisation in 2015-17. Total proceeds were $34.1 billion, or $15.9 billion nett of debt. The electricity proceeds were promised to fund urban Metro trains as well as schools and hospitals (and even the Zoo).

Proceeds were short of Baird's $20 billion expectation, even then with only 1/3 actually allocated from the $6 billion promised to regions.

The shortfall has not stopped the Baird/Berejiklian team from making further promises about Big Ticket road and rail tunnels, Metro extensions, tram projects and new carriages, on top of WestConnex and the CBD to Southwest Metro (the two total over $30 billion). The NSW Treasurer said he would ask Canberra to pay for the West Metro – all without legitimisation – with Transport's Constance to similarly seek an extra $1.1 billion for the OlyPark tram even after a very optimistic $1.3 billion from value taxes.

In late 2009 the majority of States and Territories saw NSW as sucking funds out of the national pool and creating bad impressions, so COAG decided that

> *State and Territories will have capital city strategic plans by 2012 that meet national criteria for transport, housing, urban development and sustainability.... The national criteria will deliver better integrated and longer term - 30 year - infrastructure and land use plans. The criteria require planned, evidence based land release to improve housing affordability, better transport planning to tackle urban congestion, and new urban development to be better linked to transport, jobs and services.*
>
> *The Commonwealth must have confidence in the integrity of a capital city's strategic planning system if it is to invest in that city.*

The timetable included getting an interim report on consistency to NSW in April 2011; provide a report back to COAG in November '11; and report publicly in February '12. One might well ask, with COAG sloughing off its urban responsibilities in 2012, what had changed?

Certainly not NSW which was the target. iA keeps saying that funding will be dependent on adherence but doesn't follow-up; while politicians keep making capricious, ideological announcements that are made into decisions by compliant and unprofessional apparatchiks.

Few Business Cases were released and all of those had multiple redactions of cost factors and real estate yields (below). The general interpretation is that driverless Metros are being placed on top of the Bradfield-era Epping to Chatswood to the CBD and Bankstown lines in order to

- remove or marginalise the coverage of the Rail Tram & Bus Union
- reduce subsidies: the Bradfield-era system has low cost recovery and essential post-Christie track and operational reforms were postponed or cancelled due to costs
- exploit corporate opportunities: the Metros are seen to have a real estate development potential that exceeds the Bradfield-era corridors' with their build-over impediments. The main actor mentioned is the Hong Kong MTR which specialises in building ultra-high-rise apartments blocks in the airspace.

The Metros are "owned" by the Government but construction and operations are contracted out through PPPs. WestConnex is similarly owned but destined for sale.

Sydney Trains do not have to pay access or franchise charges; and its marginal and structural cost parameters are a mystery of modern times (as were British Rail's as described in Stewart Joy's *The train that ran away*).

The Askin Government established a top-level interdepartmental committee called CUMPTAC then TRANSAC which was continued by Wran Unsworth and then called for by Bruce Baird. This writer was its Secretary in the early 1980s. There was no industry or lobby representation and all interactions were proper and public. The system worked really well – and both Transport and Planning had higher productivity and lower costs than today's mega-agencies.

Now, there is a moving feast of extremely expensive mishaps called WestConnex and Metros which even iA has reported would have been cheaper and less contentious if pre-planning had been done better. In fact, not one of these "biggest projects in Australia" went through accepted processes such including those explained in the Commission of Audit's reports. The signal characteristic of post-1995 transport decision-making is avoidance of fiduciary and probity discipline. From Bruce Baird's 2 freeways, Airport Link ("Ghost Train") and innerwest tram (saved by Hawke's Labor), through Carr's and subsequent other unprofessional treatments and into the BOF/Baird/Berejiklian administrations, good options were ignored and ideological and conflicted-interest strategies implemented with force. Investors have lost through failed PPPs and missed opportunities.

Jim Steer's investigation of the NW Metro, SGS's and iA's of WestConnex, and iA and mine of the Metros, indicate that high probability of the Government's projects being exposed as economically damaging.

Calculation of Revenues, Costs & Risks - Metro

There is uncertainty around various financial and economic aspects. Professor Bob Walker published a contrary piece in *The Conversation* in March 2015, questioning the electricity retention analysis and stating that electricity dividends had kept the State's Budget in balance, also citing a UBS analysis about a long-term negative impact (controversially amended after initial exposure). Such proceeds are hypothecated to Metros and but for that the asset conversion process might have been different – the projects came before the planning (as well documented elsewhere).

Berejiklian's Strategy director Mark Coultan wrote an adverse story in *The Australian* on 11 February '16, "*Economic analysis dims lustre of Baird power plans*", that ACIL Allen had disproven Baird's claims that the poles and wires privatisation, featuring the Metro program, would deliver $300 billion over 20 years in increased State productivity – the increase in congestion and discrepancies with population and employment projections would reduce travel time claimed benefits (Peter Self's "nonsense on stilts").

He had also pointed to the CBD Metro and desal plant (in 2009) as being discreditable for being out-of-priority order if not worthless in themselves. How true that remains of the same plans, re-badged.

The *CBD to SW Metro Final Business Plan – Summary* is where one would expect to find the data needed to understand how the Metro would impact on the Bradfield system. Instead it is useless with massive gaps and 110 redactions – see the extracts following.

There is no justification for keeping such key information away from the people who "own" Parliament and MsP, the citizens. Only with transparency will the media and professions be able to rise to their professional responsibilities. As the greatest public administration thinker, Lord Acton, wrote, *Every thing secret degenerates, even the administration of justice; nothing is safe that does not show how it can bear discussion and publicity*.

It is unfortunate that the Coalition is even less informative than was Labor, as if the smoke and PR videos will persuade taxpayers to stump up $30,000,000,000 and dishonour the Improvement Generation and Bradfield. The former Fahey Government tried to keep the M2 contract secret but the same Professor Walker downloaded it from the US contractor's website.

It becomes irrelevant to ask what information we should have from the Metro as the topics are shown in black redactions in the following extracts.

The only way to bring the Metros into a responsible position is to require them to publish in full; but the issues will remain complex between the various capital and cost structures and therefore requiring a special inquiry.

To start, the metropolitan rail network is very complex. There have been major internal (David Hill) and external reviews which were intended to throw light on fat and waste.

To some extent, the sections impacted on by the Metros are the cannibalised sections. These are specific and turnstile counts will give a guide to aggregate income effects. Opal should make it easier to know entry and exit numbers, but so far doesn't.

9.1 Financing the Project

Financial analysis was performed on the Definition Design. The financial analysis covers 38.5 years and includes a delivery phase of 8.5 years and an operating phase of 30 years.

Total Delivery Phase net project cost is [redacted] (nominal), inclusive of the sale of the rights for over station development ([redacted]). (See page 26 for explanatory note re redacted figures.)

The Delivery Phase is now fully funded. At the time the Business Case was prepared, it was 91 per cent funded with [redacted] additional funding required. Funding included Total Asset Management (TAM) funding of [redacted], Rebuilding NSW funding of [redacted], and contributions from UrbanGrowth NSW and LAHC of [redacted].

Operating costs have been calculated on an incremental basis with the operations of Sydney Metro City & Southwest added to the existing operations of Sydney Metro Northwest.

Operating costs are expected to increase on average by [redacted] per annum (real) over the assessment period. However, after taking into account the additional fare revenue earned through the implementation of the Project of [redacted], the net operational funding requirement is [redacted] per annum (real).

However, travelling connects across modes and routes. The classic rule is to avoid changes of mode (from customer viewpoints), but that will be another complicating factor as there are so many of them under the Metro regime. Special events and emergencies will also be confused.

Then there are expected to be crossovers between the Metro PPP and profits from real estate development (see quote below). How will that work? Can we trust a Government that is so embedded with lobbyist representatives to achieve a fair and transparent outcome on the basis of all economic taxation principles. Will the Value Capture model work!

When Premier Greiner oversaw the introduction of accrual accounting in the 1980s, the Harbour Bridge was valued at $1. Despite the then solid logic, if the Government does anything like that in handing over the Metros and airspace to an investor, especially a Chinese one (given other controversies), the community would be entitled to overturn ballot boxes.

The distribution of real estate feedback will vary with north of the Harbour, CBD and Bankstown line (only 1 to 4% of growth load). There Is a straight swop of new/nearby for old except for four new stations (Crows Nest, Victoria Cross and Barangaroo plus Waterloo).

It can be seen that the "summary" business plan contains no relevant information:

9.3 Project cost analysis

9.3.1 Delivery Phase costs

The estimated cost of delivering the Sydney Metro City & Southwest in nominal terms is [redacted]. Table 9.1 sets out the P90 net costs for the Project during the Delivery Phase in real, nominal and NPV terms.

Table 9.1 Delivery Phase net Project costs ($m) – P90

Passive tax	Real[31]	Nominal	NPV[32]
Net Project cost	[redacted]	[redacted]	[redacted]

9.3.2 Operating Phase costs

The Operating Phase costs for the Project are based on the incremental increase in services and assets from the Sydney Metro Northwest, and operating risks attached to the Sydney Metro City & Southwest. Table 9.2 sets of the Operating Phase costs over 30 years by element in real, nominal and NPV terms on a P90 basis.

Table 9.2 Operating Phase costs by element ($m) – P90

	Average annual (real)	Real[33]	Nominal	NPV[34]
Incremental Operating Phase costs	[redacted]	[redacted]	[redacted]	[redacted]

The fare revenue is calculated on an incremental public transport basis, considers the impact of the Project on the entire transport network and includes change from other transport modes (including Sydney Trains, light rail, bus, and road) to Sydney Metro. The net profit/loss generated by Sydney Metro City & Southwest is shown in Table 8.2.

9.3.3 Key outcomes

Key outcomes of this analysis include:

- the additional fare revenue on Sydney Metro services would more than cover the incremental operating costs of these services
- the annual incremental public transport fare revenue would cover nearly 61 per cent of the incremental operating cost in 2026 and more than the operating cost in 2036.

9.3.4 Whole-of-life financial analysis

Table 9.4 sets out the P90 net cost for the Project over the entire evaluation period in real, nominal and NPV terms. The evaluation period is for 38.5 years and includes a Delivery Phase of 8.5 years and an Operating Phase of 30 years.

Table 9.4 Whole-of-life net project costs ($m) – P90

Passive tax	Real[35]	Nominal	NPV
Net project cost	[redacted]	[redacted]	[redacted]

Operating Phase

Funding post-Project construction would be provided from the additional farebox revenue generated by the Project.

The net funding requirement calculation for the Operating Phase is shown in Table 9.6.

The analysis reveals that 60.6 per cent of the operating costs (nominal) are funded through the additional farebox revenue generated by the Project and that the unfunded portion is [redacted] per year.

Table 9.6 Operating Phase costs ($m)

Passive tax	Real	Nominal	NPV
Operating Phase costs (including Bankstown Line savings)	[redacted]	[redacted]	[redacted]
Less revenue	[redacted]	[redacted]	[redacted]
Total cost to be funded	[redacted]	[redacted]	[redacted]

For example,

- What percentage of income will be diverted from the railways and channelled into the Metro PPPs?
- Will the contractors siphon off a share of those Metro and even railway streams as happens with the Harbour road tunnels?
- Will the taxpaying community be aware of deals involving their and their grandkids' money?

Table 8.3 Estimate of value of surplus property and over station development rights (P50 nominal $)

Station	Site	Area (m²)	Estimated OSD value ($m)	Additional station infrastructure ($m)	Net benefit ($m)
Northern Dive site	Northern Dive site	24,000	[redacted]	[redacted]	[redacted]
Chatswood Refuge	Chatswood Refuge	Unknown	[redacted]	[redacted]	[redacted]
Crows Nest	North	3,871	[redacted]	[redacted]	[redacted]
	South	1,871	[redacted]	[redacted]	[redacted]
	Clarke St	608	[redacted]	[redacted]	[redacted]
Victoria Cross	196 Miller St	790	[redacted]	[redacted]	[redacted]
	Victoria Cross	4,789	[redacted]	[redacted]	[redacted]
Martin Place	North	2,615	[redacted]	[redacted]	[redacted]
	South	1,884	[redacted]	[redacted]	[redacted]
Pitt Street	North	3,141	[redacted]	[redacted]	[redacted]
	South	1,708	[redacted]	[redacted]	[redacted]
Southern Dive site	Southern Dive site	31,511	[redacted]	[redacted]	[redacted]
Sub-total			[redacted]	[redacted]	[redacted]
Contingency – P50 for OSD and P90 for future proofing			[redacted]	[redacted]	[redacted]
Escalation			[redacted]	[redacted]	[redacted]
Total including contingency and escalation			[redacted]	[redacted]	[redacted]

This secrecy is explicitly contrary to the undertakings of the Transport Minister as recorded by Mark Coultan in *The Australian* on 12 May '16 (just 4 months before the Summary Business Plan was released):

> The cost of Australia's largest public transport project — the Sydney Metro rail line — has blown out to $12.5 billion, raising questions about how it will be funded.
>
> The project, which will include 16km twin tunnels from Chatswood in Sydney's north to Sydenham in the city's inner west, and then conversion of the existing Bankstown line, had been costed at $9.6bn -$11bn, but NSW Premier Mike Baird revealed yesterday that the estimate was now $11.5bn-$12.5bn.
>
> That figure includes money the government will recoup when it sells the properties above the stations, subjecting the project to the uncertainties of the property market. The government will resume 150 properties for the project, including 19 buildings in the CBD, some up to 22 storeys highIt has refused to reveal how much it hopes to recoup from property sales, with speculation it will approve massive high-rise buildings above the stations in an attempt to maximise returns.
>
> The government has already announced it wants to redevelop a public housing estate in Waterloo to accommodate 10,000 new homes near the proposed station.
>
> **Transport Minister Andrew Constance said the full details would be revealed when the business case was released.**
>
> ...In 2014, Infrastructure NSW said three stations — Barangaroo, Waterloo and a station proposed in the Artarmon industrial area — could be funded from general revenue and "their nexus to land-use development suggests some costs could be borne by local beneficiaries".

At the time, Infrastructure NSW recommended that $7bn be allocated from the government's privatisation fund, Restart NSW, to what was then considered to be a $10.4bn project, with $3.4bn coming from Transport for NSW's 10-year capital works budget....

Mr Baird said the Metro project would result in 30 million fewer car trips annually in 2036, and cut 11 minutes off the trip from Chatswood to Central rail station [note: car trips is questioned, see above].

Mr Constance has likened the construction to "keyhole surgery" but the project is likely to result in CBD disruption for many years.

This was echoed in May 2014 in *The Age's* "Grattan Institute says NSW revenue crisis looms due to leap in infrastructure spending" (Peter Martin):

> What this says about new projects such as WestConnex is that they weigh down the budget for decades," Dr Daley said. "Even if they are funded by selling assets, the impact is much the same. Most sales eat into revenue. Funnily enough, the bright bankers at Macquarie Bank and the like tend to purchase assets for the revenue they think they are going to bring in.

The then head of NSW Treasury, Mike Lambert, gave the same warning in 2011. There has been media speculation already about implicit motivations from the 50+ demolitions – should the Metro own the proceeds? Or should they go into affordable housing for essential workers?

The explanation is simple – political interference:

TURNING POINT

2001	2009	2011	2012	2012	2013	2014
Christie Report contains a comprehensive agenda for strengthening the Bradfield rail system plus adaptation through selected metros 20 years down the line	Iemma/Rees Labor fear RTBU and handover of broken promises. They "think-up" a series of Metro blunders, leading to cancellation of all in 2010. Metro lobbies complain and continue campaign	O'Farrell had called Labor's metros a "fiasco" coming from a "stench" of capricious politicisation of transport.(iA questioned value of NW Link.) Promised to stay with Bradfield, set up iNSW under Nick Greiner	Baird's Budget contained Bradfield; but Berejiklian had recruited three Metro lobbyists. iNSW reported: keep largely to Christie agenda, use City Circle more, defer metros and 2nd Crossing, N/S bus tunnel in CBD, undergrounding of Parra Road (no go)	Berejiklian reduced diameter of NW tunnels to eliminate Bradfield and interoperability. Announced three metros - NW to Sydenham, Bankstown, Illawarra, demonised Baird and danced when he resigned	Berejiklian finds she cannot link Sydenham with Illawarra. Planning Minister Stokes announces densification approaches to Bankstown Corridor, UGNSW scares everyone with doubling of targets along Parra Rd	Metros realise they have to reconstruct long sections of the Bankstown line to straighten them, to allow (wrong) vehicles to serve stations. Closure for up to 12 months unannounced previously. Planning Minister Stokes emphasised need for terraces

iA's reports and analyses have exacerbated rather than ameliorated this situation (which breaches all Governments' probity commitments). Major projects are now largely unregulated regardless of merit, with Ministerial fiat dominating. In all probability, only a commission of inquiry could address the overall situation with the game-changing-for-the-worse projects as under the original EP&A Act 1980. The main roads authority seems to no longer block congestion-causing planning instruments.

In regard to the PM's promises on mode-neutral assessments, urban innovation, Jobs & Growth and re-establishing the integrity of iA, there is a gap between NSW practices which also disadvantage the Greater Sydney Commission (which is required to take on Government projects without amendment). In 2009 COAG tried to head-off NSW by requiring "city plans" before projects were submitted. As Nick Greiner said in 2013, *"The land use plan should have come first … There's no point Transport doing its Masterplan .. if you haven't worked out where jobs are and where people are … So the Metro Plan was supposed to happen along with our SIS … so clearly that's a bit arse-about".* The Greater Sydney Commission is an implementation arm of the State and has to accept the pre-formulated infrastructure statement of intent (not "plan"); and there is no independent agency planning or critiquing good and poor plans for the metropolis.

The iA's guidelines and Dr Kerry Schott's (NSW Commission of Audit) are quoted below followed by iNSW's "Gate Zero", all of which should work within a city plan that Sydney does not have:

INFRASTRUCTURE AUSTRALIA, AUSTRALIAN INFRASTRUCTURE PLAN:

Proponents of new infrastructure which do not undertake the prerequisite project development work risk poor outcomes, preventing the community from accessing the infrastructure they require, and restricting economic opportunities.

Prior to investment decisions, governments should define the problem that needs to be addressed. Problems are identified through long-term integrated infrastructure planning and the analysis of strategic data sources such as Infrastructure Australia's Audit. Once the problem has been defined, early project development studies should then proceed. These include:

- Strategic options assessments: demonstrate the nature and scale of the problem(s) and identify solutions which may or may not involve the delivery of new infrastructure;
- <u>Feasibility studies</u>: undertake engineering, environmental and economic assessments to develop <u>solutions into fully-scoped projects</u>; and
- Project business cases: provide more detailed economic assessments, including cost-benefit analysis.

These studies help ensure the right infrastructure solution is selected and that benefits to the community are maximised.

SCHOTT INTERIM REPORT OF THE NSW COMMISSION OF AUDIT:

For material capital investments, agencies are required to elaborate on:

- what contribution the proposed investment will make to the program delivery requirements
- how this contribution relates back to strategic and business plans of the entity and government
- the financial and economic implications of the proposed capital investment, including of whole-of-life costs and how these will be met
- key performance indicators that the investment will influence, including a commitment to performance targets if the investment is undertaken
- the evidence base supporting the investment, including its provenance and a statement on its robustness
- alternative forms of infrastructure that may deliver the same outcome;
- alternative programs that might displace the need for infrastructure
- whether existing assets could be better leveraged or adapted to deliver the investment objectives.

It is important that agencies fully comply with the business criteria and ensure that all these aspects are addressed in a well-articulated and unambiguous manner. Agencies also need to be held accountable against the appropriate key performance indicators if the proposed asset investments are undertaken.

iNSW's "Gate Zero" requirements (from Mr Greiner's iNSW 2012) have not been met yet. They are:

At the initial stage the options considered should be wide-ranging and should include consideration of, for example:

- alternative service delivery models that are less capital-intensive
- options for new asset capacity versus better utilisation of existing assets
- different forms of infrastructure with differing value-cost characteristics (e.g. roads, rail, bus)
- substantial variations in scope and standard
- alternative timing for delivery
- the use of pricing or other mechanisms to moderate demand.

iA's *Statement of Expectations* (2015) include the following:

IA is expected to:

- review the cost-benefit analysis provided by proponents for economic infrastructure proposals (transport, water, energy, communications) and social infrastructure proposals, excluding any Defence proposals;
- undertake these in a timely manner;
- publish its findings in a timely manner; and
- ensure the findings inform the Infrastructure Priority List as appropriate
- approve a methodology or methodologies (if required for different sectors) that enables proposals to be compared.

The GSC District Plans can be amended to give guidance on this although the non-mention of Canterbury Racecourse gives pause as to whether it can stray beyond narrow corridors and sites.

There are other unknown choices or assumptions including

- why the Sydenham services are being extended to Bankstown instead of the East Hills/KSA line

- why so much money is being spent in areas which have strong transit services already, instead of in areas which have had inadequate attention with consequential employment, pollution and equity externalities
- why vehicles were selected that require the straightening of major sections of the suburban lines, placement of passenger chutes on lightly-loaded platforms, and extensive periods of damaging closures; instead of vehicles which need none of these and have operational advantages as well
- why a dramatic change in housing patterns has been coerced on to communities without debate about the congestion, affordability, heat sink and other disadvantages of them
- why the placement of Metros intrinsically means no significant improvement in population coverage and indeed so much of the total transit budget is being spent on replacement services for about 1 to 3% of population growth over the next 15 years, with no ability to cater for even higher subsequent population growth.

Calculation of Revenues & Costs - CityRail

The simple proportionate usage of the metropolitan rail system, between the stations directly or potentially affected by the Metros, is shown in this table (2014 data). The numbers are surrogates for ticket revenue ($181.5 m in 2016) but not fixed and variable costs.

The table does not show the loading of the line sections which were described in detail in Ron Christie's 2001 and 2010 reports and Greiner's iNSW's 2012: they both rated Bankstown as least in need of expenditure and East Hills as most.

	24 Hr Total	% of Total System
Bankstown	54,050	4.8
CBD	340,330	30.5
East Hills	51,380	4.6
Inner West	72,440	6.5
North Shore	102,790	9.2
Main North	66,070	5.9
South	57,600	5.2
Western	134,040	12.0

On the surface, these lines account for 80% of CityRail patronage. Chatswood to Bankstown Metro will take over 40% or more. Farebox revenue is almost insignificant compared with the cost of construction (0.00006%).

RailCorp is a complex, integrated network. The Auditor General shows its equity and debt positions as follows. Assets and maintenance costs are not further divisible:

	Impact on equity of capital structure review	Equity position		Borrowings	
Year ended	19 June 2015	30 June 2015	30 June2014	22 July 2015	30 June 2014
Entity	$m	$m	$m	$m	$m
RailCorp	(1,340)	25,780	26,812	2,034	883
Sydney Trains	989	1,222	534	--	--
NSW Trains	351	84	(184)	--	--

Source: Financial statements (audited).

	RailCorp asset values	TfNSW asset values	Maintenance costs
Year ended 30 June	2015	2015	2015
Entity using assets	$m	$m	$m
Sydney Trains	*	--	550
NSW Trains	*	1,805	393
Total	**29,125**	**1,805**	**943**

* The value of RailCorp assets used by Sydney Trains and NSW Trains has not been quantified individually.

	Rail		Buses**		Ferries	
Year ended 30 June	2015	2014	2015	2014	2015	2014
Cost of services per passenger journey ($)	13.5	13.3	6.5	7.5	8.6	9.3
Passenger revenue per passenger journey ($)	2.49	2.67	1.38	1.58	3.04	3.03
Net cost per passenger journey ($)*	11.0	10.6	5.1	5.9	5.6	6.3
Cost recovery from users (%)	18.4	20.1	21.2	21.1	35.3	32.6

* the net cost per passenger journey represents the amount subsidised by taxpayers through government contributions, less any other revenue sources.

** passenger journey for buses does not include children under the School Student Transport Scheme nor passengers travelled on free shuttle bus routes up to December 2014. From January 2015, these passenger journeys are included in the calculation provided by TfNSW.

The Annual Report contains broad income and expense information:

> For the 2015–16 year, RailCorp received $181.5 million [2014-15: $197.6 million] in income, while total expenses of $1,125.7 million [2014–15: $1,209.3 million] were incurred in operations, depreciation and financing costs. Depreciation and amortisation of $935.9 million [2014–15: $901.3 million] was the largest component of expense, reflective of the current operating environment.
>
> The resulting deficit from operations, before Government support, was $944.2 million [2014–15: $1,011.7 million].
>
> Whilst RailCorp did not require direct Government contributions for its day-to-day operations, $15.4 million [2014–15: $46.5 million includes $16.1 million relating to redundancy funding] was provided by Government to fund defined benefits superannuation in the year. The resulting deficit from operations before capital contributions was $928.8 million [2014–15: $965.2 million].

Network economies come from scale and integration, as the Government argued in the context of council amalgamations. The railways share electrical, maintenance, training, staff supply, marketing and property services among others, across their operating lines.

What percentage of which shared services will be redundant once the mainline sections are closed, and progressively?

What percentage will be so diminished that their continued existence is threatened (say for contracting out within a pre-determined framework)?

Supplementary revenue – property sources

A study of three property-based contribution mechanisms was done for RailCorp's Anzac Metro. The three came from Professor Parry's Financing report: value capture, municipal levy, general metropolitan improvement fund. Tax Incremental Financing was examined for the Property Council in a separate exercise. The conclusion has to be that the maximum contribution that such measures can make to massive projects would not exceed 40% of the cost.

Centurion, the local partner for state-owned Chinese interests, is proposing a fast rail from Sydney to the Illawarra as part of a more ambitious high-speed train project for NSW (this is based on various media reports).

> The consortium says Baird government ministers have told it that the plan for the new rail links in the Illawarra will trigger the "Macarthur Plan", opening the way for the release of land for construction of about 100,000 homes. Using so-called value capture, the group wants to fund the proposed rail link by imposing a levy on new houses in the area of $250 a square metre.
>
> The consortium also has longer-term proposals to build a high-speed rail link between Canberra and Newcastle via Sydney's CBD. Under those highly ambitious plans, a 45-kilometre tunnel would run under Sydney, and connect Hornsby, Circular Quay, Central and Western Sydney Airport to Campbelltown and the Hume corridor. Centurion has been pushing its plans for high-speed line between Newcastle, Sydney and Canberra for a number of years. Its call early this year for the government to enlarge the planned tunnels under Sydney Harbour for the new metro line to make them suitable for bigger trains fell on deaf ears.

The lessons of history from the Harbour Bridge and Cumberland County Council include projects which were more equitable and efficient. Developer levies largely failed to materialise in the otherwise exemplary London CrossRail project; the similar Parramatta Road value capture proposal (at $200 per square metre) was attacked by the Urban Taskforce as pushing up costs and prices unreasonably; and residents expect rural lots to be 800 square metres or larger, meaning a per-property levy of over $200,000 (half of the full cost of a plot in Picton or Tahmoor, added to existing taxes and levies and therefore setting a new low in fringe land affordability).

Conversely, to make a big project feasible on the basis of betterment – and the reality would be a mix – 100,000 lots would have to pay some $2.4 billion a year over 30 years or $25,000 p.a. per lot. Clearly that would be absurd, and it doesn't much matter if you split the levy or increase the number of lots.

Then there are the principles of taxation. Equity is one and Consult Aust rightly said that different methods "*help reach the goal of sharing outcomes equitably with the public, investors and developers*". However, equity needs to be defined more broadly and the swath of residential areas in built-up NSW paid no special levies, just normal rates and taxes.

Equity then means why create two classes of taxpayers, the wealthy on the east and the housing-stressed elsewhere. One of the Property Council's submissions to government talked of such levies resulting in

> *infrastructure being 'drip fed' to an area, and (they) can fail to deliver infrastructure of a sufficient scale, on time and in a coordinated manner. There are also concerns that development levies add significantly to the upfront cost of development, and hence act to impede the rate of lot uptake in new residential areas and ultimately impact on housing affordability (as well as infrastructure provision itself).*
>
> *In fact, this negative relationship between housing affordability and development charges has recently been recognised by COAG*

Conclusions: TRANSAC, Grattan & Intergenerational Deterioration

Three conclusions seem to be reasonable in this context:

- the failure to meet accepted standards of project assessment and the exclusion of consequential damage to the Bradfield-era heritage rail system means that Metro and associated tunnel actual or theoretical funds should not be expended until it is known what the contingent liability from the Bradfield degradation will be. This is a "Catch-22" that is consequential to ideology-based decisionmaking that is so decried by PM Turnbull. Minister Constance should be encouraged to meet his promise to release details of real estate factors.
- iA and its chairman emphasised the importance of feasibility testing of options and then business cases for short-listed prospects. Its comments on WestConnex suggested that better pre-planning might have reduced costs as well as community rejection. There are options that have the potential to produce better outcomes more cheaply and quickly.
- The inherent complexity between Metro system development, the cannibalisation of the Bradfield-era double-decker system, and the risky air-space residential densification of the MTR model, makes this a potentially disastrous case study: sacrificing the hard-won proceeds of privatisation on a system that is unlikely to meet more than 4% of new dwellings over 15 and more years does not have the ring of success about it.

Federal protections have failed – the 2009 COAG determinations were not implemented and iA post-Eddington is a cheerleader for Metros, making egregious errors of fact and logic (especially regarding the 2nd Harbour Crossing, the West Metro and the Waterloo-Green Square metro/tram/BRT confusion). After Greiner's iNSW was monstered in 2012, iNSW retreated into a safe shell from which it has not re-emerged.

A problem that underpins the strategic "studies" is the influence exercised through a web of relationships, even if through simple Galbraithian "identification". The current entanglements through just Infrastructure Partnerships Australia and associated official bodies is amazing when one recalls the effectiveness of TRANSAC which had no commercial entanglements. However, the Executive culture has deteriorated so much that this would be more risky than in the 1970s-80s. Professor Shergold's Spann Oration in 2008 ("*The delicate balance between responsiveness to government direction and public service independence is a matter of ongoing public debate*") and Gerry Gleeson's in 2010 ("*There appears to be a lack of capacity in Departments and more importantly across the Government for strategic policy and review. This in turn leads to the excessive use of private consultants ....*) bear on this pessimism:

	Bid/Request	**Receive/Review**	**Implement**	**Build/Buy**
Mrdak	IPA	iA, DIRD	DIRD, Cabinet	Projects, feasibility. Moorebank
Schott	IPA	iA, Treasury	(DIRD)	Moorebank, influence WS Leadership
Lyon	IPA	TfNSW	iNSW/Metro	Metro, Tunnels, News Ltd
NSW Planning	IPA	DOPE	Cabinet	Metro, Tunnels
NSW Treasury	IPA	Treasury	Cabinet	Metro, Tunnels
Vic Treasury	IPA	Treasury	Cabinet	Metro, Tunnels
NSW Ports	IPA	Minister	Cabinet	Ports, support Moorebank

This paragraph comprises "devil's advocacy" at National and State levels – questions that need to be asked if solutions are to be found and implemented:

> The Moorebank Intermodal Terminal is a case in point. On one view, it is too small and in the wrong place. The costs of multiple transfers is excessive. Yet iA's master, then Minister Albanese, drove its creation and DIRD has fallen in so far as to publish a weak case *for* multiple transfers. There is a cycle of suggestion from IPA, deliberation in iA, approval through NSW Treasury and DIRD, receipt by Moorebank, and advocacy in the Western Sydney Leadership meetings. It is possible that a reasonable person would find this to require declarations in every one of the forums.

That line of logic suggests a clear-out of IPA in line with code recommendations made elsewhere and/or appointment of an "inspector" as in NSW ICAC. That position would sit over iA and DIRD.

The Campsie densification shows how far GSC has been marginalised because of its legislation, its forced acceptance of even the least legitimate Government idea, and the continuing domination of capricious politicians in dislocated project and housing areas (adding Canterbury Racecourse when it's not even mentioned in the District Plan).

iA wrote in its analysis of the WestConnex situation that "*A more comprehensive options analysis may have identified these evolutions or other approaches earlier in the planning and delivery process, potentially mitigating some risks around project certainty and scope*".

The Grattan Institute's *Roads to Riches* (2016) found the most likely systemic remedy:

> Commonwealth and state governments have established new bodies, such as Infrastructure Australia, to improve infrastructure spending. This is a positive move. But in their current form, these bodies have limited impact.
>
> A better approach would involve three steps. Governments currently cherry-pick the evaluation method that suits the result they want. Instead, they should not be able to commit to a transport infrastructure project

> before tabling in parliament a rigorous like-for-like evaluation of the net benefit, conducted by an independent body.
>
> Governments would then be free to make and defend decisions on the basis of a clear rationale for investment. Politicians would be less eager to invest in projects that don't stack up.
>
> Once governments are only building projects where the community benefit clearly outweighs the cost, their second step should be to aim to build all such projects. Quality assessment, not arbitrarily imposed budgetary limits, should determine the level of investment. In other words, if a project has net benefits to the community, the government should build it.
>
> Third, Commonwealth funding for projects should be disentangled from states' GST entitlements.
>
> The Commonwealth should fund infrastructure that is important to the national economy, regardless of where it is based. It should not then override its own allocations by compensating states that did not receive funds.
>
> More disciplined selection of infrastructure projects would have a double benefit. It would mean less wasteful spending and better transport networks, built where they will make the most difference.

Only through such a path could Dr Garry Bowditch's prescription gain any traction (AFR June '15):

> **Community support and trust towards credible infrastructure plans must be earned with sound community engagement and better customer service outcomes. These must form the central plank of the new long-term infrastructure-planning regime, not just a focus on assets and projects. This is by far Australia's most pressing infrastructure imperative.**

Finally, to summarise **intergenerational equity implications**, the Metro project is breaching every guideline:

1. Metros will change urban structure to increase congestion and worsen housing affordability – servicing no more than 5%, and more likely 1%, of population growth with 100% of the transit budget is monumentally questionable
2. Metros will damage the Bradfield-era system which the Government is glossing over – what will future generations be able to do with these assets?
3. Real social dislocation will come from over-densification in terms of private and public places and heat sinks/energy irresponsibility. Terraces will be under-serviced and discouraged while congestion will worsen across Bankstown's Maginot Line and generally,
4. Value Capture will create two classes of living places and generations
5. Metros will use up so much capital that better technologies will be neglected, reducing proportional transit usage (cf Christie's 50% more rail usage by 2021 to just maintain air quality)
6. The metro has chosen a technology that will inflict unnecessary financial waste on coming generations
7. Community cynicism will worsen, creating political instability and growing community rejection of conjoined agencies and commercial lobbies
8. The agencies involved will not be able to contribute positively once amalgamated councils exercise their base values – increasingly NIMBYism and fringe parties holding casting votes

The contingent and/or actual effect is a quasi-privatisation of the heavy rail services. The fiduciary arrangements with the Metros are unclear and the risks applying to the possible closure of major sections of the Bradfield-era system warrant an explicit democratic discussion.

There should be a careful pause so these factors can be worked out in the manner envisaged by NSW Treasury, iA, the Commission of Audit and iNSW.

The Save Sydney papers, of which this document is a sample, honour Sydney's heroes past and recent.

The author appears to be the last active survivor of the reform generation comprising Neville Wran MP, Peter Cox MP, Nick Greiner MP, Gordon Messiter, Vince Graham, Ron Christie and Sir Rod Eddington *inter alia*.

The reason is, he started at a young age in 1977 as the first Policy Analyst in the history of the Ministry of Transport & Highways; and still burns with the passion Sir Thomas Hughes, John Daniel Fitzgerald, John Garlick and John Sulman taught him from his first Hons colloquium paper in 1972 at Sydney University under the great Dick Spann, Syd Butlin and Peter Spearritt.