

Cabinet Secretariat Reference	
Submission No.	BERC 41
Copy No.	

Submission to: **Budget and Expenditure Review Committee**

Submission Title: **East West Link Business Case Update**

Portfolio/s: **Public Transport, Roads**

SUBMISSION PROPOSAL

Recommendation:

That the Budget and Expenditure Review Committee (BERC):

1. Note the presentation and tabling of the East West Link Project Business Case, including Attachments A to R.
2. Endorse the strategic case for the full East West Link to overcome the connectivity, capacity, congestion and network resilience issues in the east-west corridor and generate benefits for road users and Melbourne's economy more broadly.
3. Agree to the delivery of Stage 1 of the full East West link being the Eastern Section, a connection from the western end of the Eastern Freeway in Clifton Hill to CityLink in Parkville (providing access to the Port of Melbourne via CityLink through to Footscray or Dynon Road interchanges).
4. Note the estimated Total Expected Investment (TEI) of \$6.8bn (nominal) required over financial years 2013/14 to 2018/19 for planning and construction of the Eastern Section (excluding private financing costs), noting that the final TEI of the Project will depend on the scale and timing of private financing of the Project.
5. Approve provision of \$7.7bn (nominal) total capital cost for the Eastern Section including private financing costs based on an assumed \$3bn private financing contribution to construction.
6. Approve release of funding of [\$224M in 2013/14] and [\$70M in 2014/15] for State procurement, management, land acquisition and integrated scope costs (as detailed in Table 33, p201 of the Business Case and in Business Case section at Paragraph 6).
7. Agree to reserve the balance of the \$7.76bn (nominal) required for delivery of the Project in contingency, noting that the bid process will provide updated information on the funds required.
8. Agree to a Public Private Partnership (PPP) availability procurement model where the private sector will design, construct, finance (in part), operate and maintain the Project road in return for receipt of quarterly service payments.
9. Agree in principle that the East West Link Eastern section should be a toll road with the State retaining toll revenues and traffic demand risk at least until traffic volumes are proven.

10. Agree to project timelines for Stage 1 as follows:

- a. Statutory State and Commonwealth approvals process: March 2013 – Qtr 3 2014.
- b. Tender process including contract award: Qtr 2 2013 – Qtr 3 2014.
- c. Seek BERC consideration of any proposed early works and complementary projects in June 2013
- d. Seek BERC approval of the Public Sector Comparator including tolling principles for the Eastern Section in Qtr 3 2013.

11. Note that the Middle Section (direct independent connection from the Eastern Section to the Port of Melbourne) could be put to market as an option alongside Stage 1 (not as part of the mandatory project scope) however this requires an estimated additional funding of \$1.9bn (nominal) and is not recommended for inclusion as demand for this element is considered low in the short to medium term.

12. Note that options for possible inclusion in the Project scope or separate delivery of complementary projects will be investigated, with business case preparation to be undertaken during 2013 (Refer **Attachment 1** for summary).

13. Note that early works opportunities will be further investigated and reported to BERC as above.

14. Agree that an update on the strategic merits of the entire East West Link Project be provided to Infrastructure Australia (IA) in April 2013 subject to the approval of the Premier, Treasurer and Minister for Roads.

15. Endorse preparation of a supplementary Approval in Principle to make further changes to the *Major Transport Facilitation Act 2009* (MTPFA) for consideration by Cabinet by May 2013.

Objectives:

1. To present the Business Case for the East West Link Project for BERC consideration and request funding for delivery of the Eastern Section as Stage 1 of the Project.
2. To consider scope options and timings, including the potential to deliver the middle section that connects directly to the Port alongside Stage 1, complementary projects and early works. (Refer Attachment 1 for Complementary Works).
3. Consider options to maintain appropriate engagement with IA and the Commonwealth Government.
4. To present proposed project delivery timelines and opportunities to expedite the MTPFA approval process.

Key Issues:

Business Case

1. The East West Link Business Case has been under development throughout 2012, receiving guidance on key issues from Building Liveability and Environment Committee (BLEC) on five occasions.

2. The Business Case has been developed in close collaboration with the Department of Premier and Cabinet (DPC), the Department of Treasury and Finance (DTF) and the Department of Planning and Community Development (DPCD) and in accordance with the High Value/High Risk process.
3. The Business Case was the subject of a Gateway Review process in late January 2013 which made 15 recommendations, the most critical of which referred to the nomination of a responsible authority to deliver the Project. This was addressed with the appointment of Linking Melbourne Authority (LMA) as the proponent on 20 March 2013. The overall rating was amber, indicating that successful delivery of the project was considered feasible with identified issues able to be resolved.
4. The full Business Case for the East West Link Project, including Attachments A to R will be tabled at the BEREC meeting.
5. Aspects of the Business Case may be subjected to further revision as updated or additional information becomes available through the process undertaken to implement the Project.
6. Below is a table setting out the forecast cash flow for 2013/14 and 2014/15.

Forecast Cash Flow Breakdown – 2013/14 & 2014/15 (\$m, nominal)

DESCRIPTION	2013/14	2014/15
Commercial & Legal	23	10
Communications	1	
DOT/VicRoads Internal Costs [#]	5	3
Statutory Approvals / Design	17	
LMA Operations	13	13
Independent Reviewer		4
Land Acquisition	165	25
Integrated Transport & Land Use Projects [^]		15
TOTAL	224	70

[#] Includes DoT program support, VicRoads project management, Network Impact Assessment, Eastern Freeway assessment, EWL/broader network interface signing strategy, Development of interchange arrangements, & Alexandra Parade / Inner North traffic management strategy

[^] Part of the \$200m allowance. At this time, includes public transport priority and reliability improvements in the inner north of Melbourne (DART bus and North-South Tram services), and Alexandra Parade transport and urban design improvements. BEREC will be further briefed on project opportunities and development pathways.

Project benefits

7. A range of strategic benefits are outlined in Chapter 3 in the Business Case with the economic appraisal included in Chapter 10.
8. The full East West Link will provide a much needed alternative to the heavily used Monash and West Gate Freeways (the M1 corridor), reduce reliance on the West Gate

Bridge and relieve congestion and improve amenity in the inner north and inner west. It will also boost accessibility to important economic and employment centres across the city, including Melbourne Port and Airport.

9. The East West Link will change the face of Melbourne. One of the largest infrastructure projects ever undertaken in Australia, the East West Link will transform accessibility and connectivity throughout the city. In turn, this will support new patterns of economic development, residential growth and urban renewal and deliver substantial economic benefits to the Victorian and national economy.
10. Travel on the East West Link between the Eastern Freeway and CityLink could take as little as seven minutes, and save on average around 15 to 20 minutes for any trip across the north of the CBD in comparison with current journeys. Travel time runs have shown that it can currently take up to 45 minutes to travel through this area on the existing road network so potential savings of up to 35 minutes could be reached in peak times by using the East West Link.
11. People will also bypass 16 sets of traffic lights by taking the East West Link through this section.
12. The traditional economic appraisal results are presented below. Whilst the Base Case Benefit Cost Ratio (BCR) without Wider Economic Benefits (WEB) is less than 1, it is important to consider the strategic network impact of the Project on the city and the value of network resilience. The proposed capacity upgrade to CityLink also creates significant benefits for the East West Link Project and should be considered when assessing the Project's benefits. It is certainly a project of the scale where WEBs should be considered.

Base Case BCR (7% discount rate)	0.45 (excl. WEBs)	0.84 (incl. WEBs)
Including CityLink widening	0.73 (excl. WEBs)	1.19 (incl. WEBs)

Project Scope (including scope options and complementary works)

13. The Base Case Project Scope is described in detail in the Business Case and includes the following elements:
 - a. An interchange at Hoddle Street that will continue to provide for all existing traffic movements, with the main carriageways passing under Hoddle Street and the South Morang/Hurstbridge railway line (to maintain the existing connection for turning right from Hoddle Street south onto the Eastern Freeway) and new provision made for both northbound and southbound Hoddle Street traffic to turn west into the Eastern Section tunnel.
 - b. Tunnel portal west of Hoddle Street with significant cut and cover construction to transition from surface construction to the point of entry to the driven tunnel.
 - c. Twin 4.4 km three-lane tunnels in each direction from the Eastern Freeway to CityLink starting from west of Hoddle Street, running under Alexandra Parade and continuing under the Melbourne General Cemetery, Royal Parade and Royal Park.
 - d. Tunnel portal in Royal Park just west of the Upfield railway line linking to separate elevated structures providing north-facing connections to CityLink

near Brunswick Road and south-facing connections to CityLink near the soundtube.

- e. Single lane west-facing exit/entry ramps allowing access to/from Flemington Road via Elliott Avenue.
- f. A package of integrated land use and public transport initiatives (as set out in Chapter 7 of the Business Case).

14. A number of scope items are identified as potential variations and clarity is required on these items before proceeding to tender.
15. The major scope variation is the potential inclusion of the Middle section (direct connection from the Eastern section to the Port) at an estimated TEI of \$1.9bn, if undertaken at the same time as the Eastern Section. This scope option is **not** recommended for inclusion in the mandatory scope at this time due to the relatively low level of demand (less than twenty per cent of capacity) expected on this link in the near term and the very limited additional revenue likely to be generated (approximately ten per cent increase estimated and subject to further verification.)
16. The integrated scope elements will be further developed during 2013 so that funding allocations can be made during the May 2014 budget.

Complementary Projects

17. A range of complementary projects outside the Base Case have been identified to improve the operation of the overall transport network and maximise the benefit of the Project.
18. The most significant complementary project is the upgrade of CityLink to provide additional capacity as this has a significantly positive impact on the performance of the Project and economic benefits delivered. Considering this upgrade as part of the East West Link Project results in a positive BCR of 1.19 for the Project. Negotiations between the State and Transurban are progressing and it may be possible for an arrangement to be reached that provides for Transurban to deliver the required upgrade works and have those works funded by a change in toll pricing for heavy vehicles.
19. Other complementary projects include upgrades and widening to the Eastern Freeway in addition to the widening proposed as part of the Base Case Project. Preliminary work indicates that an additional traffic lane can be provided along the Eastern Freeway between Hoddle Street and Doncaster Road at an estimated cost of approximately \$200m. Further upgrades to the Eastern Freeway between Hoddle Street and to Springvale including managed motorway treatments, additional widening and intersection upgrades are estimated to cost in the order of \$500m. These projects will be further scoped and costed over the next three to six months. The findings of the Doncaster Rail study will continue to be considered in this process.

Project Cost

20. The need to build the Eastern Section in a well-established urban area with no surface road reservation (along with the network connections and capacity required to maximise the Project's wider economic benefits) results in significantly higher capital costs than might otherwise have been the case.

21. Most of the Eastern Section is proposed to be in tunnel (4.4 kilometres of the six kilometre total) to minimise highly negative social, visual, noise and other environmental impacts. This increases the construction costs substantially, compared to a surface or elevated road.
22. The estimated total risk adjusted capital cost for the Eastern Section (for the scope recommended in this submission) is **\$6,843 million (nominal)**. This is made up as follows:

Total construction period costs Eastern Section	Nominal \$million
Design and construction costs	5,503
Risk and contingencies	755
Allowance for integrated transport and land use opportunities	200
State procurement, management and land acquisition costs	385
Total Project costs	6,843

Note that the above funding table excludes private financing costs

23. These costs assume construction commences during the end of 2014 and have been independently assessed by the Department of Treasury and Finance's appointed peer reviewer, APP.
24. The cost estimates do not include the State's share of any positive or negative impacts on the State's existing two toll road concessions. These impacts will be addressed further in the next steps of project development.
25. The Project's financial impacts for the State (based on the above cost estimates and the accounting treatment of the recommended procurement model) are addressed in Chapter 14 of the Business Case. Based on an assumed \$3bn (nominal) of private finance, \$920m (nominal) of private finance costs will be incurred in addition to the \$6.8bn (nominal) of project costs detailed above. The accounting treatment of the PPP procurement model results in an estimated balance sheet impact of \$7.76bn (nominal). The actual impact will only be known on the conclusion of the PPP tender process.
26. These impacts do not take into account annual operating and maintenance, toll collection and other lifecycle costs. Nor does it take into account future toll revenues of over the operating period. These toll revenues are expected to offset ongoing operating phase costs and provide some recovery of upfront capital costs over time.

Toll Revenues

27. The high cost of the Project means that tolling is an important part of the total funding solution. Under the recommended procurement model the State will be the recipient of the toll revenue stream from the Project road. These revenues will add to future operating revenues to partially offset the capital cost outlined above.
28. Following detailed traffic modelling, the testing of a range of toll pricing options and consideration given to consistency with toll pricing and structures on Melbourne's existing toll roads, the Business Case adopts a single gantry toll point approach with the following pricing scenario (Real \$2012 GST included):

Toll price	Peak period	Non-peak period	Multipliers
Cars	\$5.50	\$5.50	1.0
Light Commercial Vehicles	\$8.80	\$7.04	1.6
Heavy Commercial Vehicles	\$16.50	\$13.20	3.0

29. This compares to a range of sectional tolls for trips on CityLink and EastLink subject to a trip cap for cars of \$7.52 on CityLink and \$5.57 on EastLink.

30. Whilst the ultimate toll pricing solution is still to be determined, current forecasts suggest that in the financial year ending June 2022 (third year of operations) the Project toll revenues will generate in the region of \$200 million (nominal) in annual operating revenues for the State. The extent to which this offsets operating phase costs and provides some recovery of upfront capital costs is outlined in Chapter 11 of the Business Case.

31. Under the recommended procurement model, the State may have the option to separately realise the long term value of the future toll revenue stream through a later sale process to be instigated once traffic volumes are proven. Sale of this revenue stream is considered the most likely medium term outcome.

Procurement model

32. The Business Case has identified and assessed a broad range of procurement options for the Eastern Section in accordance with relevant DTF and IA guidance, and taking into account the Victorian Government’s intention to work more effectively with the private sector to deliver new infrastructure projects.

33. An extensive market sounding process conducted to support this analysis found strong interest for the full East West Link and the Eastern Section amongst local and international contractors and financiers.

34. All participants in this engagement process indicated they are willing to accept and can price efficiently the usual delivery, funding and performance risks transferred to the private sector under a PPP. However, a number of high profile financial failures in the toll road sector in Australia mean the market has a much more limited appetite for taking on full demand risk in the absence of proven traffic volumes for a new toll road.

35. Taking these views and the State’s broader objectives into account, it has been determined that whilst the Project should be a toll road, it is best delivered via a model under which the State retains initial demand risk (at least until traffic volumes are proven), with PPP delivery of project assets and services. This model provides for an efficient and cost effective balance between the use of public and private sector financing.

36. Under this model, the State is the recipient of the toll revenue stream, bearing the full

cost (reduced toll revenues) and full benefit (increased toll revenues) that may result from fluctuating traffic volumes. Asset delivery and ongoing operations are procured via a PPP under which the private sector is responsible for the design, construction, finance, operation and maintenance of the Project over the concession period (similar to that implemented for Peninsula Link).

37. In line with emerging trends in recent PPPs, a government funding contribution is expected to be included in the Project's capital structure alongside private finance. This contribution would primarily be sized to resolve the impact of any prevailing liquidity constraints in the debt market that are relevant to a project of this size but will also address inefficiencies that may arise from the ongoing high cost of private sector debt. This contribution will be implemented in manner that seeks to preserve the risk allocation and financial incentive structures that are central to the PPP model. In this respect, it is expected that the benefits of the PPP model will be retained.

MTPFA amendments

38. On 4 March 2013, Cabinet gave approval in principle of a package of amendments to the MTPFA (ie. The Major Transport Projects Facilitation (Red Tape Reduction) Bill 2013). The package includes:

- a. moving to a more risk-based assessment regime
- b. enabling early construction works to deliver projects more efficiently
- c. simplifying administrative processes and improving timeliness
- d. increasing project flexibility and extending the scope of the Act
- e. enabling more efficient land acquisition and project delivery.

39. The current amendments are expected to make significant time savings but, at present, it is difficult to determine whether the savings will be enough to meet the Project timelines. Therefore, further changes are proposed by central agencies, the Department of Transport (DOT) and LMA, recognising that this will create increasing time pressure on DPCD.

40. These changes will be subject to further discussion with DPCD and currently include:

- a. Removing the ability of the Assessment Committee to prepare an Issues Report.
- b. Reducing the statutory timeframes with respect to the:
 - i. Comprehensive Impact State (CIS) determination (from 10 business days (BD) to 5)
 - ii. preparation of scoping directions (from 25 BD to 10)
 - iii. approval of the CIS for exhibition by the Secretary of DPCD (from 15 BD to 10)
 - iv. period of exhibition of CIS (from 20 - 30 BD to 20), although this is likely to be contentious as it reduces time for community input
 - v. period for Minister for Planning to make his approval decision (from 40 BD to 20).
- c. Bringing forward EPA's consideration of Works Approval conditions so it

advises the Minister for Planning at the same time as the Assessment Committee.

- d. Authorising the Minister for Planning to issue terms of reference to the Assessment Committee to limit the scope of any public hearing to specified matters.
- e. Exempting certain MTPFA provisions from *Subordinate Legislation Act 1994* requirements.

41. These changes will be further developed for consideration by Cabinet in May 2013.

Infrastructure Australia engagement

42. The BLEC meeting of 26 March 2013 agreed that, subject to BERC consideration, the Business Case be provided to IA in April 2013, on a confidential basis and noting that it may change to include complementary projects.
43. This course of action would ensure that the Commonwealth and IA are fully informed of the current state of planning and analysis for the East West Link, noting that the Business Case focusses most heavily on the Eastern Section. The risk associated with this action is that the lower end range of Benefit Cost Ratios presented in the Business Case may be used as a justification for not supporting the Project.
44. It is proposed to provide updated strategic material (stage 1-6 template) to IA in April 2013, noting how this work builds on the August 2012 submission and reflects the further planning and development work since undertaken, including the revised and improved network-wide/corridor approach the Project has adopted.
45. The Victorian Government can then state that it has submitted updated project information to IA for assessment.
46. The Victorian Government can also call on the Commonwealth Government in its May Budget to provide capacity in the forward estimates for Federal funding for the East West Link Project through the Nation Building 2 Program.
47. This BERC submission also proposes that DOT and central agencies continue dialogue with IA on the Project between April and September 2013.

Project timelines for Stage 1

48. Plans have been developed to guide the effective and timely delivery of the Eastern Section. This includes a timetable that aims to:
 - a. commence the statutory planning and approvals process (MTPFA) in the first quarter of 2013, including beginning community and stakeholder consultation
 - b. complete the Project funding (and other business case) approvals process by May 2013
 - c. seek BERC approval for any proposed early works and the Public Sector Comparator for the Eastern Section in Qtr 3 2013
 - d. commence a competitive tender process in mid-2013 to enable issue of Request for Proposal (RFP) documents to shortlisted bidders by late 2013 and selection of a winning bidder in the third quarter of 2014

e. finalise statutory planning and environmental approvals in the third quarter of 2014.

49. Under this timetable, construction of the Project would commence before the end of 2014, with the road opening to traffic by late 2018 or early 2019.

50. The statutory planning and environmental approvals process is a key item on the critical path for implementation of these timelines. To achieve these timelines Government will be required to make decisions in short timeframes with little or no slippage throughout.

51. Because of the broad range of decisions required over the coming year it is likely that Ministers will be required to consider matters outside the normal scheduled meetings of BLEC and BEREC. Future governance will be as agreed between the Premier, Treasurer and Minister for Roads as per the BLEC meeting of 26 March 2013.

Risks:

1. A project of this scale and complexity involves a number of key risks that need to be managed and/or mitigated in order to successfully deliver the Project on a whole of life basis. Chapter 9 of the Business Case identifies, analyses and recommends strategic risk management plans to manage and mitigate the identified risks.
2. Key identified risks include: scope specification; revenue; planning and statutory approvals; land acquisition; site and ground conditions; design and construction; community impact; transport network integration; interface risks with existing and proposed toll roads; operational, maintenance and toll collection risks and other commercial, financial and legal risks. Each identified risk has an identified risk management plan.
3. The proposed Program is at significant risk of not being achieved if project milestones cannot be considered and endorsed in a timely manner.

Support/Criticism:

1. The East West Link Project has received both support and criticism from stakeholders, particularly in relation to the potential for direct access to the central city, potential surface impacts and investment opportunities in alternate priority projects.
2. Discussions to date with Commonwealth Government officers have not indicated a desire to fund the Project in the upcoming Commonwealth budget nor in the Nation Building 2 Program.
3. Infrastructure Australia has categorised the Project as “Recommended for Project Development Funding”.

Terry Mulder MP
Minister for Public Transport
Minister for Roads

Date:

FUNDING

Financial Implication Table

ASSET INVESTMENT	Departmental Estimate					
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m	Remaining \$m	TEI \$m
Total asset cost	224	1,493	1,603	1,450	2,073	6,843
<i>Less: funding to be held in central contingency</i>	0	1,423	1,603	1,450	2,073	6,549
Net funding to Department	224	70	-	-	-	294

Note that the above funding table excludes private financing costs.

Note that additional funding to the Department as set out in Table 33 on p201 of the Business Case will be the subject of future BERC consideration.

Note that Business Cases will be prepared during 2013 to fully analyse the investment decisions associated with the integrated public transport and urban renewal projects identified in the East West Link Project Business Case.

DTF and the Department have agreed the financial implications and costings in this submission:

Yes No

IMPACT ASSESSMENTS

Social Impacts:

1. Enhanced transport networks, for both private vehicles and public transport, will facilitate improved mobility and access for all.
2. Potential negative impacts from construction activity, changed traffic conditions and changed urban form will need to be considered and mitigated as part of the Project.

Family Impacts:

1. No significant family impacts are envisaged.

Regional and Rural Victorian Impacts:

1. The East West Link will provide more cross Melbourne transport options and improved access to the Port of Melbourne in support of rural and regional economies.

Economic Impacts:

1. Enhancing the transport network will assist supply chain efficiency, business to business interaction and improve the competitiveness of the Victorian economy.
2. Improved freight network capacity and efficiency will contribute to State productivity.
3. Significant construction activity will support the Victorian economy during Project delivery, noting that funding options and impacts are yet to be determined.

Regulatory burden, offsetting reductions and evaluation strategy:

Does the submission propose an increase in regulatory burden on the business or not-for-profit sectors that is likely to be 'material' as defined in the Victorian Regulatory Change Measurement (RCM) Manual?

Yes

No

Environmental Impacts:

1. The Project provides an opportunity to achieve a number of outcomes, such as smoother traffic flow, improved location of employment and housing and more efficient public transport that will create a positive environmental outcome.
2. The project will be developed in a manner that seeks to minimise any potential negative environmental impacts of construction, operation and traffic use.

Charter of Human Rights and Responsibilities Impacts:

1. The process will be managed to take account of relevant obligations and ensure that any recommendations to government are consistent with relevant responsibilities.