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| Cabinet Secretariat Reference | |
| Submission No. | MSSPC 12 |
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Submission to: Major & State Significant Projects Committee

Submission Title: East West Link Consolidated Business Case

Portfolio/s: Roads, Public Transport

SUBMISSION PROPOSAL

Recommendation:

That the Major and State Significant Projects Committee (MSSPC) agree to:

1. **Note** the consolidated East West Link (EWL) Business Case, including Attachments A to R, which include Stage 1 scope elements as endorsed by the Budget and Expenditure Review Committee (BERC) in April and June 2013.
2. **Note** for the purposes of the business case the following scope is assumed for Stage 1
 - a. The Road Link – A tolled freeway standard road extending from the western end of the Eastern Freeway in Clifton Hill to join up with CityLink in Parkville, including associated access ramps connecting each carriageway to the new road.
 - b. Eastern Freeway Upgrade – widening between Yarra Bend Road and Tram Road and a managed motorways system between Hoddle Street and Springvale Road.
 - c. CityLink Upgrade – widening, managed motorways system and freeway interchange improvements between the M1 and Bulla Road.
 - d. Public Transport Upgrade – A range of public transport upgrades to the north of the CBD that are facilitated by changed traffic patterns created by the new East West Road Link.
 - e. Alexandra Parade Urban Renewal – Enhancements to Alexandra Parade.
3. **Note** that the project budget includes a \$400 million (nominal) allocation for the Public Transport Upgrade, Eastern Freeway Upgrade and Alexandra Parade urban projects which are still subject to separate individual business case development and High Value High Risk assessment processes for BERC consideration in quarter one 2014.
4. **Note** the approved funding assumes the CityLink upgrade, which is subject to the outcome of commercial negotiations with road operator Transurban, is budget neutral.
5. **Agree** to a copy of the business case being provided to the Commonwealth Department of Infrastructure and Transport and/or Infrastructure Australia with timing and content to be agreed by the Premier, Treasurer and Minister.

6. **Note** further work on the EWL tolling strategy is continuing and is anticipated to be brought to MSSPC in November for consideration.

Objectives:

1. Seek MSSPC's approval of the consolidated EWL business case.
2. Seek MSSPC's agreement to providing a copy of the business case to the Commonwealth Department of Infrastructure and Transport and / or Infrastructure Australia at the appropriate time, to be agreed with the Premier, Treasurer and Minister.
3. That MSSPC note that further analysis of the Eastern Freeway upgrade, Public Transport Upgrades, and Alexandra Parade urban renewal projects will be reported back to the BERC once individual High Value/High Risk (HVHR) Business Cases are completed.
4. That MSSPC note that work on the EWL tolling strategy is continuing.

Key Issues:

Background

1. BERC considered the EWL Business Case at its 2 & 8 April 2013 meetings and resolved, amongst other things, to note the EWL Business Case, note the total expected investment, approve provision of the required capital cost, and approve release of funding.
2. The approved budget included a \$200 million (nominal) provision for integrated transport and land use initiatives, and an additional \$200 million (nominal) provision for the Eastern Freeway Upgrade.
3. In order to demonstrate the expected benefits of the full project to Infrastructure Australia a short form business case was developed incorporating preliminary scope and costs for the integrated transport and land use initiatives (public transport upgrades only) and the Eastern Freeway Upgrade.
4. BERC considered the *East West Link Stage One Short Form Business Case – Information for Infrastructure Australia* (Short Form business case) on 24 June 2013 and resolved, amongst other things to note the results of the analysis included and the scope elements of the EWL, including the public transport upgrade and Eastern Freeway upgrade.

EWL Consolidated Business Case (Attachment 1)

5. This business case is an update to the case considered by BERC in April 2013 for Stage 1. It consolidates relevant work completed to June 2013 for the purposes of preparing the Short Form business case, including for the surrounding road network, public transport and urban renewal improvements announced in the May 2013 State Budget, with the purpose of maximising the benefits of the Government's commitment to the Road Link.
6. The EWL Consolidated business case (**Attachment 1**) analysis of Stage 1 of the EWL project, and consistent with the April and June 2013 BERC considerations, and the Short Form business case, assumes the following scope elements:

- a. The Road Link – A tolled freeway standard road extending from the western end of the Eastern Freeway in Clifton Hill to join up with CityLink in Parkville, including associated access ramps connecting each carriageway to the new road.
 - b. Eastern Freeway Upgrade – An additional lane of capacity in each direction on the Eastern Freeway between Yarra Bend Road and Tram Road and a managed motorways system on the freeway between Hoddle Street and Springvale Road.
 - c. CityLink Upgrade – An additional lane of capacity in each direction on CityLink between the M1 to Bulla Road, an additional ramp to Williamstown Road at Graham Street, and a managed motorways system on the freeway between the M1 and Bulla Road.
 - d. Public Transport Upgrade – A range of public transport upgrades (north-south tram and Doncaster Area Rapid Transit (DART) bus priority improvements) that are enabled with the new East West Link Road Link, and which support greater productivity in inner Melbourne.
 - e. Alexandra Parade Urban Renewal – A range of improvement initiatives to enhance Alexandra Parade
7. As noted in paragraph 2, the project budget includes a \$400 million (nominal) allocation for the Public Transport Upgrade, Eastern Freeway Upgrade and Alexandra Parade urban renewal projects. Preliminary scope and cost analysis has been included in both the EWL Short Form and Consolidated business cases, however these projects are subject to separate individual business case development and to HVHR processes for BERC consideration in second quarter 2014. To the extent the scope of works change as part of developing these business cases, any new scope of work will need to fit within the funding allocation and offer at least the same economic benefits as the scope of works outlined in the EWL Consolidated business case.
 8. This business case has no additional impact on approved funding provided in the 2013/14 State Budget.

CityLink Upgrade

9. The Department of Treasury and Finance (DTF), together with the Linking Melbourne Authority (LMA) and VicRoads, is undertaking commercial negotiations with City Link road operator Transurban with a view to agreeing a commercial outcome with respect to the EWL Road Link connection to CityLink and capacity upgrades to CityLink.
10. The business case and approved funding for EWL Stage 1 assumes any CityLink Upgrade, which is subject to the conclusion of commercial negotiations with Transurban, is budget neutral.

Structure of the Business Case

11. The business case presents the strategic case for the full EWL and the detailed case for the recommended first stage. The business case documents detailed technical, traffic, tolling, risk, and procurement analysis for the Road Link.
12. The business case also includes financial, economic and budget impact analysis of Stage 1, including the Eastern Freeway Upgrade and Public Transport Upgrade.

Cost Basis

13. The business case includes a cost range for EWL Stage 1 of \$6.6 - \$7 billion excluding private financing costs.
14. Capital cost estimates were prepared for the EWL Road Link which were peer reviewed by APP who subsequently presented a cost range which reflected “*the price submitted to Government by the D&C contractor to design and construct the scope of works under two scenarios*” The cost estimates and financial analysis presented in the business case are based on the JHLD-JV cost estimate with adjustments based on the results of APP’s review.
15. The cost range includes a ‘competitive estimate’ (\$6.6 billion) – which provides the lower range cost estimate representing a more competitive estimate of the cost to design and construct the road link and was used in the *East West Link Stage One Short Form Business Case – Information for Infrastructure Australia* and the consolidated June business case.
16. A more conservative ‘budget estimate’ (\$7 billion) – which provides the upper range cost estimate representing a conservative estimate to be used for budget funding request purposes, was used in the March business case.
17. The Eastern Freeway Upgrade together with Public Transport improvements (north-south tram and DART bus priority improvements) included in the Short Form business case and the consolidated business case have a total cost of \$366 million (nominal). As noted in paragraph 7 these, together with Alexandra Parade urban renewal each will be subject to further individual business case development up to a total nominal approved budget of \$400 million for BERC consideration in the second quarter 2014.

Economic Analysis

18. The traditional economic appraisal results are presented below. Whilst the East West Link Stage 1 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. It is a project of the scale where WEBs should be considered.

| Cost Basis | Benefit Cost Ratio | Benefit Cost Ratio (excluding wider economic benefits) |
|----------------------|--------------------|---|
| Competitive estimate | 1.4 | 0.8 |
| Budget estimate | 1.3 | 0.8 |

Commonwealth Government Engagement

19. A hard copy of the *East West Link Stage One Short Form Business Case – Information for Infrastructure Australia* and Infrastructure Australia reform and investment framework templates 1 – 7 were hand delivered to Infrastructure Australia National Infrastructure Coordinator, Michael Deegan on the 28 June 2013.
20. To support the Commonwealth funding allocation to Victoria for the East West Link it is expected that the attached consolidated business case will need to be provided to the Commonwealth Department of Infrastructure and Transport in whole or in part.
21. However it is expected that Infrastructure Australia will undergo some changes in the near term. It is recommended that provision of business case information to

Infrastructure Australia occur after these changes.

22. As such it is recommended that the consolidated EWL business case be provided to the Commonwealth Department of Infrastructure and Transport and Infrastructure Australia, with timing and content to be agreed by the Premier, Treasurer and Minister.

Tolling Strategy

23. The Department of Transport, Planning and Local Infrastructure (DTPLI) is responsible for preparing a tolling strategy for EWL. DTF is responsible for implementing a toll revenue holding structure and future revenue strategy.
24. The business case approach to toll pricing was constrained by Melbourne's existing toll road tolling regimes, particularly regarding car and light commercial vehicle toll levels, to avoid traffic diversion to the M1 corridor. Further work is continuing on a tolling strategy in order to maximise financial, transport and productivity outcomes. A report back to MSSPC in December is anticipated.
25. A working group chaired by DTPLI will guide and oversee the work, and assist coordination with the work being undertaken by DTF. Membership will include DTPLI, DTF, Department of Premier and Cabinet, LMA and VicRoads.

Risks:

1. The Eastern Freeway enabling works and public transport improvements have only been subject to preliminary costing, however this will be addressed through preparation of individual HVHR Business Cases.

Support/Criticism:

1. There has been strong industry and community support for the project to date.
2. Initial community engagement has highlighted some local concerns about impacts along the East West corridor.
3. Community engagement to gather input and inform the project development will continue throughout project delivery.

Terry Mulder MP
Minister for Roads
Minister for Public Transport

Date:

FUNDING

Funding for East West Link Stage 1 was approved in the 2013/14 State Budget and assumes any CityLink Upgrade, which is subject to the conclusion of commercial negotiations with Transurban, is budget neutral.

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. The project will create benefits for families through improved access to jobs and services.

Regional and Rural Victorian Impacts:

1. The East West Link Stage One 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 will achieve a number of outcomes, such as smoother traffic flow, improved access to 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.