

From: [REDACTED]
To: Tollroads
Subject: Submission to Toll Roads In Inquiry by Nicholas Apostolidis
Date: Monday, 6 August 2018 12:35:13 PM

To whom it may concern,

I wish to make this submission to the above inquiry as an individual. I am a retired civil engineer with over 40 years experience in the design and delivery of major infrastructure projects. I am making this submission to assist government make better infrastructure delivery decisions in future that deliver an acceptable level of service but much more cost effectively for the community.

In making this submission I wish to point out that, in principle, I do not have a problem with a private operator that has invested their own capital and taken construction and user risks to achieve a decent return on their investment. The issue I have is how we procure and deliver the toll road projects. My submission primarily focuses on items a and b of the terms of reference, namely

- a) Operation of the existing toll roads
- b) Toll pricing and incentive options to deliver better outcomes

Operation of Existing Toll Roads

One of the challenges in Australia is that there are few Toll Road operators. Transurban is the major operator and is almost running as a monopoly in Australia. As a result there is insufficient competitive tension to force Toll Road operators to deliver better outcomes for commuters. The service contracts are long term and once signed there is limited opportunity for the government that has outsourced these projects to influence the price charged. Worse still when the service contract comes up for renewal the incumbent has a very big advantage over any new players and the renewed contract continues with little change in pricing outcome.

What the government can do with respect to the current Toll roads? :

Benchmark the level of service and cost of service against worlds best practice to make sure the current operators are not price gouging. Having just returned from Europe, the Europeans seem to enjoy much better value for money with their toll roads. They are able to build their roads much more cost effectively and this is reflected in the price of the tolls

When the current service contract comes up for renewal, it is essential new entrants are encouraged to bid for the new contract. This may require taking out the financing component of the contract and allow companies to compete for the operating component

The government consider acquiring the asset and letting out only operating service contracts. This will allow new and smaller companies to bid for the work resulting in a more competitive service offering

Toll Pricing and Incentive Options

A major contributor to the cost of tolls is the cost of construction and how risk is shared with the proponent that builds and operates the road. Australia has some of the highest construction costs in the world. A big contributor to this is the way the contracts are procured. The projects are combined into mega packages where only few companies are able to bid for the works. Consideration should be given to breaking up the projects into smaller packages allowing greater competition for construction.

The other major contributor on toll roads is how risks are shared between the government and the toll road proponent. Construction companies can manage construction risk but have little ability to influence the use of the toll roads especially during the early phases of the project. This has resulted in significant price premiums placed on the cost of construction to cope with the usage risk. Even then major companies have got it wrong resulting in significant losses to investors and eventually the commuters.

The cost of toll roads will be significantly reduced if the government takes on the usage risk especially during the early phases to the asset's life. This way the government can select the construction contractor that delivers the best value for money on their ability to manage the construction risk only, something they are good at.

I trust the above comments are helpful. I will be happy to elaborate on any of the above comments if required.

Regards

Nick Apostolidis
[REDACTED]