Andrew**Skinner**
& Associates

19 March 2017

The Premier
Gladys Berejiklian, MP
280 Willoughby Road,
Naremburn, NSW 2065

Dear Premier

RE: Toll Road Submission

Congratulations on your appointment to the position of Premier. In the context of the drive to increase infrastructure spending and to encourage private public partnerships I wish to make some comments on the matter of tolls.

Background

Increasing Sydney is getting more and more crowded and congested. The Greater Sydney Commission estimates that at least 1.74m more people will live in Sydney by 2036[i]. Is this a sustainable objective? That is a debate for another day. (However, as an aside, it is time for a fast train to Bathurst and to build a new inland city with a large relocation of government employment to the West. The unrelenting demand for Sydney property is another example of lack of sustainability, an immediate suggestion is only citizens of Australia may buy Sydney property, no settlement of any property purchase can occur until clearance is received. As Sydney people are competing with the world for property. There are two sides to any market demand and supply. All discussion has been on supply rather than what is the problem with the demand?).

However, having lived in both the Penrith region and now North Sydney, one of my motivations for sacrificing disposal income was to live closer to the city, the commute and the cost of the commute was life destroying.

In the context of the debate may I make several suggestions for debate.

A return on equity

As a practicing accountant, a director of several ASX public companies and a lecturer at Macquarie University, one of the basic risks with any asset is the return. Recently, I have been involved in the purchase of a coking coal mine.

Andrew Skinner & Associates Pty Ltd
Is a CPA Practice Business
Andrew Skinner - Director
ABN 56 101 932 889

Suite 510, 7 Railway Street, Chatswood, NSW, 2067
GPO BOX 2867, Sydney, NSW, 2001
t. 02 8197 1188 f. 02 8456 5708 m. 0418 601 688 e. andrew@andrewskinner.com.au

Future pricing is unknown. There is no certainty in the pricing of the commodity. This is our investment risk and is reflected in the “price” we are willing to pay for an asset. A greater pricing volatility the greater the return on equity and the higher discount rate applied.

Alternatively, when buying a commercial building, the purchaser is buying on yield. The yield is based on the rental income, the escalation, the expected cost of ownership and the cost of money. If the building becomes vacant at a future time the value will drop. This is the owner’s risk.

It is abhorrent to my mind that an investor should be guaranteed a risk-free return. This is the case with toll roads. There is NO MARKET pricing mechanism. High (or perceived) tolls will result in changes in behavior to avoid the toll. The result that the asset is not able to cover the cost of interest. Witness the fate of both the cross city tunnel (still below traffic projections and a very expensive toll road) or the Lane Cove Tunnel which both went into liquidation.

Recommendation: There should be NO fixed increase rate on tolls (above CPI). Having a high rate of increase eliminates market risk from the investment. The rate should reflect the cost of recovery of the investment. For example, if the life of asset is 40 years, then a simple Net Present Value, allowing for the cost of money, risk, and other normal NPV factors should be included. Any increase over and above the agreed rate would then be only allowed by IPART. Any toll road operator should be matching the borrowing with the life of the asset, not with short term debt. Thus, a return (like a bond) can be determined. The value of the bond will thus be determined by the traffic volumes.

The land lottery win

In the example of the proposed Military Road toll road, those that pay will be those coming from north of the Spit Bridge. They will save travel time, (only until the road reaches capacity – witness the M5) but pay the higher travel costs.

The residents, living above the road corridor (that is Mosman, Neutral Bay etc.) we win the lottery. They will not be paying the cost of the road. However, their land values will benefit and their amenity will increase.

The new infrastructure will also benefit underlying land values, a further lottery (super profit) win to the few.

Recommendation: There should be a consideration of a value up lift land tax on all those residents who benefit from the reduced congestion. This land tax could represent a portion of the government contribution to the infrastructure. For example, the government could own 25% of the asset, with an option to sell. The land tax share would be the return on that investment.

Cost of living in Sydney

Many of the lowest paid must live increasingly further and further distances from their place of work. Often, they only have the option of driving or very long commutes by train. Emergency and health workers who do shift work often must drive for safety. The cost of transport is a further drain to their net income.

Recommendation: There should be a consideration of rebate to those whose taxable incomes are 70% of the median Sydney income to receive a payment to reduce the cost of their tolls.

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There are many and varied opinions on roads and tolls roads as to for other public transport options. Unfortunately, in the clash of rights vs consequences there will always be winners and losers.

If you require any additional information, please do not hesitate to contact me.

Yours sincerely

Andrew Skinner B.Ec, M.Ec, M Corp.Gov., Dip Prop Develop (Dist.), CPA, JP
Director

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[i] Greater Sydney Commission, Towards Our Greater Sydney 2056 (A Draft Amendment To Update A Plan For Growing Sydney) November 2016, page 7