Appendix G: Linewide package

Project summary

Works package components	Linewide alliance	Linewide franchise
Package lifecycle phase	Delivery, construction commenced May 2026	Contract awarded in December 2025
Scope	An alliance contract that includes the design, construction, installation, manufacture, integration, testing and commissioning of line-wide works, including: • rolling stock (dedicated high tech, 4 car medium capacity) • rail systems (automated train operations, signalling, platform screen doors, communication systems, network control and monitoring systems) • line-wide systems (track works, overhead line equipment, permanent power supply, bulk power supply points, mechanical, electrical and plumbing systems, tunnel ventilation system, Southern Stabling Yard (SSY) facilities and emergency support facility).	A 15-year operation and maintenance (O&M) contract with the franchisee responsible for operation and maintenance of all assets and infrastructure of SRL East (including assets delivered by Linewide, tunnelling and stations packages). The contract includes options to extend the franchise term by 3 years.
Contract award date	December 2025	December 2025
Expected practical completion date	May 2035	N/A

Note: The Linewide franchise does not include delivery works and so does not have a practical completion date. Services under the franchise have a target commencement date of 24 May 2035, with 7 months of program contingency to December 2035. The franchise agreement covers a 15-year term until December 2050, with the option to extend the term by 3 years.
Source: VAGO, based on information from SRLA and DPC.

Cost overview summary

Figure G1: Linewide alliance cost overview summary ($ million)

Cost component	Baseline budget (June 2023)	SRLA budget (December 2025)	Actual cost to end 2025
Base cost estimate (includes direct and indirect costs and corporate overheads and profit (COP))	-	-	31.1
Owner's costs/minor works	-	-	185.8
Total	**7,950.6**	**8,264.2**	**216.9**

Note: We have included high level summary cost information for the Linewide package to protect the commercial position of SRLA and the state in managing risk and cost under the package. The base cost and estimate includes a contingency provision for unexpected costs, a provision to cover estimated cost escalation, and an allowance for the contracted performance KPI regime payments available to the contractors.
Source: VAGO, based on information from SRLA and DPC.

Figure G2: Franchise agreement cost overview summary ($ million)

	SRLA initial cost estimate	SRLA updated cost estimate for RFP review	Approved cost at contract award
O&M costs	3,236	3,623	3,874

Note: These O&M costs are nominal and are not included in the $34.5 billion funding envelope for SRL East and will be subject to a further funding submission. O&M costs include operations and maintenance costs, state risk and escalation.
Source: VAGO, based on information from SRLA and DPC.

Procurement structure and timeline

The 2 Linewide package contracts were awarded to the TransitLinX consortium in December 2025:

- a project alliance agreement for the construction and delivery phase to 2035
- a 15-year O&M franchise term to operate the SRL East rail network, with an option to extend the term by up to 3 years.

SRLA procured these contracts together as a single package based on market feedback and its commercial strategy. SRLA advised the government in September 2021 that including the O&M operator in the project alliance as a non-owner participant (NOP) would:

- provide an opportunity to better manage interfaces and the systems integration process by avoiding complex inter-package interfaces between the Linewide and stations works contractors over an extended period
- facilitate timely, efficient and effective operator involvement in the delivery phase where appropriate
- provide an opportunity for the O&M role to be competitively priced as part of an integrated tender process
- create opportunities for operator innovation, including to optimise whole-of-life costs
- be preferable from the perspective of SRLA's organisational capacity, capability and appetite.

Based on the procurement strategy approved by the government in September 2021, the Linewide package was initially due to commence with the release of expressions of interest (EOI) in August 2022, with requests for proposal (RFP) release planned for April 2023, preferred respondent nominated in February 2024, and contract award targeted for July 2024.

As shown in Figure G3 below, the final Linewide procurement timeline shifted significantly from the baseline set in September 2021. This is the result of a number of key decisions and delays:

- delays to the release of EOIs driven by market participants indicating the need for more time to develop a better understanding of the package requirements and commercial principles, including the significant interface responsibilities and complexities associated with delivery, and local content requirements for rolling stock
- the government decision in 2024 to require SRLA to reprofile or slow down spending on the project required a 16-week extension to the RFP phase to align with the revised funding profile and give participants time to incorporate a new delivery timeline into their responses
- a 3-month delay due to an extensive Foreign Investment Review Board review process.

Delays to the RFP phase caused by the government direction to slow down spending on the project also led to an increase of up to $20 million for unsuccessful bidder fees to account for the additional costs incurred by respondents during the extended procurement.

Figure G3 shows the difference between the baseline procurement milestone dates and the actual procurement dates.

Figure G3: WPG procurement timeline comparison

Milestone	Baseline key dates	Actual dates
Release EOI	August 2022	July 2023
Release RFP	April 2023	January 2024
Preferred respondent	February 2024	May 2025
Contract award	July 2024	December 2025

Source: VAGO, based on information from SRLA and DPC.

Overall, the Linewide contract was awarded 17 months later than initially planned. Despite this, SRLA has maintained a delivery program that reflects the government's commitment to commence rail services in 2035. SRLA advised us that it is working with the Linewide alliance to bring forward some activities, for example, SRLA noted that it has made SSY land available to the alliance approximately 7 months earlier than required by the contract.

Project delivery

Cost, time and scope performance

WPG is the largest package by contract value and includes the largest single alliance contract entered into by the state.

Delivery timelines

SRLA advised us that construction activities on the Linewide works commenced in May 2026. The delivery program includes 7 months of contingency out to December 2035.

The preferred Linewide contractor commenced delivery of early services in July 2025, before the final contract was signed. These works are in-scope items brought forward to de-risk the delivery program and mitigate the impacts of delays to contract award.

SRLA set a budget of $35 million for the early services, which is included in the Linewide target outturn cost (TOC). The services comprise engineering activities to support the tunnels and stations interface rail safety accreditation activities, and development of key management plans to support an efficient transition into delivery. The early services do not include any on-site construction works.

Cost

The Linewide package cost estimate has increased since 2022. SRLA estimated the cost of the delivery alliance at around $7.9 billion in 2022. The current expected cost, based on the December 2025 contract outcomes, is around $8.7 billion.

The budget for the main works packages includes an allocation to meet the alliance costs and SRLA's owner's costs and minor works costs associated with WPG.

The TOC included in the contract signed for the Linewide alliance in December 2025 is $6,718 million. This is an increase of more than $650 million from the estimate advised to the government in May 2025 based on the preferred respondent's bid pricing for the contract at that time. The increase comprises:

- $353 million for asbestos-containing material (ACM) removal and remediation at SSY
- $245 million for technical and commercial changes
- $81 million to embed SRLA staff in the alliance and associated insurances.

DTF advice to the government at contract award in December 2025 noted that expected cost increases for the unawarded stations packages would require further contingency reallocations which, following reallocation of contingency for the Linewide package, are likely to fully exhaust the program's unallocated general contingency provisions and also reduce the contingency provisions for the tunnelling packages.

This is consistent with a proposal to the SRLA board in November 2025 to cover the expected cost increases to the Linewide and stations packages by reallocating contingency from the tunnels packages.

The O&M franchisee will be responsible for operating and maintaining the SRL East rail network for an initial term of 15 years. SRLA's initial cost estimate for the franchise over a 15-year term was around $3.2 billion. SRLA's budget for main works does not cover the expected costs for the O&M franchise and there is currently no approved funding in place to meet the costs of the franchise. This will be subject to a future funding submission.

SRLA advice to the government in December 2025 on the cost of the franchise arrangement indicated an average annual cost of around $258 million to operate the SRL East railway.

Scope

The Linewide package scope remains broadly consistent with the original reference design, although there has been some scope movement. The 2 major new scope items included in the Linewide package are:

- relocating the Western Port-Altona-Geelong (WAG) oil pipeline
- ACM removal and site remediation works at SSY.

Relocating the WAG pipeline was initially part of the I&EW scope. SRLA conducted a 2-stage procurement process in April 2025 to relocate a section of the WAG pipeline at SSY that resulted in a single bid. SRLA did not consider the bid to offer sufficient value for money and was not confident the contractor could meet the required program dates.

The WAG pipeline relocation scope has since been transferred to WPG.

The WPC contractor discovered ACM at SSY West after taking control of the site in October 2024. Since then testing has uncovered a significant amount of ACM throughout the site. The site remediation works, consisting of removing and disposing of the majority of ACM and treating and retaining the rest on site, were transferred to the Linewide package at contract award. SRLA has requested a detailed proposal for the remediation works from the WPG alliance contractor.

Risks and emerging issues

Interface risks

The Linewide works package is large and complex, with multiple interfaces particularly with the stations packages, including design integration requirements.

The high level of interdependency with the other works packages means that delays to the Linewide package may have significant impacts on other works packages and vice versa. SRLA has demonstrated a strong understanding of these risks and has developed several key commercial arrangements in the delivery alliance to manage them:

- the O&M franchisee has a NOP role in the delivery alliance to support early and continuous involvement in design and delivery
- shared risk of integrating tunnels and stations works with the Linewide works
- shared risk of integrated program with stations packages (including design development, site access and testing and commissioning).

SRLA developed a shared milestone regime to help manage the integration risk by incentivising cooperation between the stations and Linewide packages.

Under the shared milestone regime there are 14 integrated milestones that relate to activities that 2 (or more) interfacing alliances need to work together to achieve, and where there would be benefits to the overall SRL program if these milestones were achieved on time. If the milestone is achieved on time, then each alliance receives a financial reward. If the milestone is not achieved, then neither alliance gets the reward. There is no penalty or 'risk amount' for late achievement of a milestone under this regime.

The reward amounts range from $1 million to $5 million depending on the criticality of the activity. The total reward available for each alliance under the regime is:

- WPG: $23.5 million
- WPE: $17.5 million
- WPF: $14 million.

Although these amounts are not material in terms of the overall contract price for each works package, the reward amounts are material in relation to the associated works.

In addition, the main works packages are all subject to performance risk or reward regimes that offer reward amounts for meeting project milestones. The Linewide performance risk or reward regime includes a total of $150 million in potential rewards for meeting or exceeding set KPIs, and up to $175 million in financial penalties for failing to meet set KPIs. If the contractor fails to meet the date of practical completion KPI it faces financial penalties up to its NOP risk cap and any interface milestone rewards paid.

The performance risk or reward regime mechanism is covered in more detail in Section 3.

SRLA considers these measures sufficient to incentivise contractors to collaborate towards meeting the interface milestone dates.

SRLA included a provision in the alliance contract to co-locate SRLA, Linewide and stations alliance staff up to 2029. This is to support improved collaboration between the package teams during the design phase to minimise interface risks and is a lesson learned from the Metro Tunnel Project.

This provision increased the Linewide delivery TOC by $23.3 million. However, SRLA expects that there will be an associated decrease in WPE and WPF office costs that will offset part of this increase. The alliances will only be reimbursed for office costs actually incurred, so the extent of this offset will not be clear until the arrangement is concluded.

SRLA has also increased the number of its staff to be embedded in the Linewide alliance to support the contracted private alliance partner to understand the state's requirements and intent and support a smooth transition for the alliance partner into its role as system integrator.

Western Port-Altona-Geelong oil pipeline relocation

The WAG oil pipeline is a piece of critical infrastructure that needs to be relocated to facilitate the SRL East delivery works. The pipeline is used to transport crude oil from the Western Port terminal to refineries in Altona and Geelong and runs under the planned SRL East rail alignment at the SSY site and the proposed eastern tunnel portal and tunnel boring machine (TBM) launch structure location.

Figure G4 shows the location of the SSY between the planned SRL stations at Cheltenham and Clayton.

Figure G4: Location of Southern Stabling Yard on SRL East rail line

Note: SSY-CTM refers to the tunnel alignment from the SSY to the new Cheltenham station. SSY-CLA refers to the tunnel alignment from the SSY to the new Clayton station.
Source: SRLA.

Advice to the government in the February 2020 I&EW funding submission noted that the WAG relocation:

- must be completed to allow the works on the eastern portal and TBM launch structure to commence and avoid potential delays to tunnelling works
- is more complex, of longer duration and higher risk than other utility relocations covered by the I&EW because it requires negotiations with the utility asset owner (Viva Energy) and the relevant regulator, and is subject to a complex planning approvals regime
- has the potential to delay works at the SSY site and lead to increased costs.

Figure G5 shows the existing and proposed new WAG pipeline alignment within the SSY. The pipeline is currently located close to the entry point for the SSY eastern tunnel portal.

Figure G5: WAG oil pipeline existing and proposed new alignment

Notes: SETS refers to the South Eastern Trunk Sewer. CL refers to Clarinda.
Source: SRLA.

Advice to the government in February 2021 on the main works funding submission identified the WAG pipeline relocation as a key risk. If the pipeline could not be relocated and/or diverted in a timely manner as part of the I&EW it would create timing issues for the planned delivery of the main works.

The WAG pipeline relocation was initially included as part of the I&EW scope and had a target budget of $10.3 million and a target completion date of 27 May 2025. This target was not met. The

WAG pipeline relocation works were not undertaken by the WPA contractor and were ultimately removed from the WPA scope as part of the settlement in late 2024.

SRLA revised its cost estimate and proposed delivery strategy for relocating the WAG pipeline during 2025 and told us that:

- the relocation of the WAG pipeline remains critical for the Linewide package
- it initially proposed to deliver the works itself by directly engaging a contractor, however the procurement process resulted in a single bid that did not offer value for money due to a high submitted price, work exclusions, material commercial deviations and a works schedule that was unlikely to meet SRLA's deadlines
- it now proposes to transfer the WAG pipeline relocation scope out of WPA into WPG as a contract variation
- it has included a provision of $44.8 million within the budget for I&EW, but this estimate will need to be revised to reflect the WPG contractual framework which is based on SRLA reimbursing the contractor's actual costs and paying a COP.

DTF advice to the government in December 2025 on the pipeline relocation issue highlighted that:

- risks associated with pricing, program and the commercial approach meant that including it as part of WPG scope may not deliver an improved outcome
- SRLA needed to closely manage the process with the WPG contractor to negotiate a scope variation post–contract award and demonstrate value for money.

SRLA now proposes to deliver the works as part of WPG as a post-award contract variation and advised us that early engagement with the private alliance partner indicated the consortium has the technical expertise, relationships and governance framework in place to manage these additional works. The alliance partner has also worked with the pipeline owner, Viva Energy Australia, in the past and has experience handling similar technical, regulatory and stakeholder requirements.

SRLA also advised us that moving the WAG works to the Linewide package will help mitigate some of the risks to the delivery program generated by failing to complete the works early as part of the I&EW package. By transferring the works to WPG, SRLA argues that the alliance partner will now have earlier access to the SSY, and with ownership of the WAG pipeline relocation scope, can plan the works to deliver them in line with the rest of its program.

SRLA is in the process of confirming the scope, cost and program details with the Linewide contractor and will pursue government approval to commence the formal process to transfer the scope in 2026.

SRLA is budgeting $44.8 million for the WAG pipeline relocation works, currently held within the I&EW funding envelope. However, the final cost estimate will need to be revised to reflect the scope and program details agreed to with the Linewide contractor and remains subject to government approval.

There are several factors that are likely to impact the final cost of the WAG pipeline works. SRLA advised the government in May 2025 that there are only 4 companies that can undertake oil pipeline works. Two of these companies were already involved in the procurement process in 2025, with one declining to submit a proposal and the other submitting a proposal that was ultimately rejected by SRLA.

This means there is a risk that there will be a lack of competitive tension in future procurement processes and any subcontractors engaged by the alliance partner to conduct the works may be able to negotiate higher prices as a result. In addition, SRLA advice indicates that the specialised nature of the works and potential for changes to the future use of the pipeline will also impact the final cost estimate.

DTF advice in December 2025 noted that SRLA would need to closely manage the process with the alliance partner to negotiate a contract variation that demonstrates value for money. DTF also advised SRLA that it may be worth reconsidering whether decommissioning the WAG pipeline is a viable and less risky option.

Contamination at SSY

The contracted cost for WPG includes $353 million for ACM remediation works at SSY.

As discussed in Appendix E, ACM was first discovered at SSY by the WPA contractor and additional testing uncovered approximately 225,000 tonnes of ACM by mid-2025. SRLA provided the results of the site investigations to the WPG alliance partner during the negotiation phase to develop a remediation strategy and associated cost variation for the final contract.

The WPG alliance partner's proposed methodology for remediation works includes excavating 1,112,000 cubic metres of material, with 864,000 cubic metres (78 per cent) being disposed of off-site due to the presence of ACM. The remaining 248,000 cubic metres will be retained on site with little or no treatment. SRLA advice indicates that the amount of ACM by weight is relatively small but is distributed extensively throughout the site. This means that stringent health and environmental rules for managing ACM must be applied to significant volumes of material, which will impact the efficiency of related earthworks. There is a risk that challenges associated with ACM removal could cause further cost increases and delays to the delivery works.

SRLA intends to mitigate the risk of schedule and cost implications by working with the alliance partner to retain as much ACM on site as possible. This approach will require additional engagement with and approvals from relevant environmental and health and safety authorities. Advice to the government indicates that this approach could lower reimbursable costs by up to $160 million. However, SRLA considers achieving cost reductions to that extent unlikely. That scenario relies on substantially less ACM than current assumptions, agreement by all relevant health and safety authorities, and optimal ground conditions.

The ACM removal and site remediation works are subject to the shared risk model included in the project alliance agreement, meaning both the contractor and the state will share in the impact of cost overruns and savings. These contractual mechanisms are discussed in more detail in Section 3. Under this model the WPG alliance partner is incentivised to act to complete works on time and keep costs low.

The contract also includes an adjustment event which would allow the contractor to claim additional funding should significant amounts of the ACM being retained on site be considered unsuitable. SRLA has estimated the financial impact of this adjustment event to be around $8 million.

In December 2025 the government approved the release of $114 million held in DTF central contingency for ACM remediation costs at SSY, representing the estimated variance between the base case and the best-case scenario outlined above. DTF will release these funds once the ACM remediation strategy has been confirmed and approved. SRLA expects to finalise the ACM remediation strategy report in late 2026 or early 2027, once the alliance partner has completed the remaining site inspections to inform its remediation approach and obtained the relevant approvals from WorkSafe and the Environment Protection Authority Victoria (EPA).

The final costs to remediate the site will depend on the amount of ACM encountered, productivity, ground conditions and how much material can ultimately be retained on site.

SRLA is also in the process of negotiating the value of compensation to be paid to the former owner of the SSY site as it was compulsorily acquired under the *Land Acquisition and Compensation Act 1986*. The land acquired was previously operated as a 'clean fill' waste processing site and the subsequent discovery of contamination throughout significant volumes of fill material is being considered as part of an updated assessment of the market value compensation payable to the previous landowner.

The previous landowner submitted a claim for compensation in January 2026. SRLA advised us that there is a significant difference between its assessment of the value of the land and the claim from the previous landowner.

Parent company guarantee

SRLA has obtained a commitment to a higher parent company guarantee for a member of the TransitLinX consortium, for increased financial security for the state.

A parent company guarantee is a safety net included in a contract that states that a parent company (the company that owns and that oversees the contractor) will fulfill the contractual obligations of its subsidiary in the event that the subsidiary fails to do so.

This protects the principal, the state in this instance, against underperformance or financial insolvency of the contractor. SRLA requested a guarantee from the parent company that oversees the contractor's parent company. This signals a reduced level of confidence in the contractor's financial stability.

The contractor's financial position declined following SRLA's review of its RFP submission.

The Linewide package is a significant works package, the largest by contract value in the SRL East project. Together, the Linewide alliance and O&M franchise involve a 25-year partnership between the state and the TransitLinX consortium. Disruptions to the delivery schedule caused by contractor insolvency could have significant impacts to the cost and delivery timeline, potentially impacting the service commencement date committed to by the government.

SRLA requested the higher parent company guarantee in August 2025 with the expectation that the issue would be resolved by September. In the meantime, SRLA considered alternatives in the event that TransitLinX was unable to secure the guarantee, including the possibility of obtaining additional insurance bonds.

TransitLinX has committed to obtaining the higher parent company guarantee, provided it could obtain formal confirmation from the higher parent company. The Linewide contract was awarded in December 2025 and its provisions provide 90 business days from the award date for TransitLinX to obtain the guarantee. In the interim, the contractor provided SRLA with a bank guarantee to act as temporary security.

Termination provisions

There are 2 provisions for termination outlined in the project alliance agreement:

- No fault termination: this is the state's termination for convenience provision, under which the state may terminate the agreement at any time by serving a notice in writing to the alliance NOPs.
- Termination for default: the state may terminate a NOP that becomes insolvent, commits a wilful default or a material breach of certain clauses of the contract, for example, non-compliance with insurance requirements. Defaulting NOPs are generally given the opportunity to remedy the default within 15 business days, though SRLA may also choose to forgo this.

Unlike the franchise agreement, the project alliance agreement does not have a specific force majeure clause for contract termination. Instead, events causing prolonged delays to delivery works are managed under the shared risk model.

In the case of extreme events where SRLA identifies a real risk that the actual works cost is likely to significantly exceed the TOC, or the practical completion date is likely to be delayed by more than 180 days, then SRLA may choose to temporarily suspend the works or invoke the no-fault termination clause mentioned above.

The cost to the state of exercising termination rights under the project alliance agreement will depend on the stage of delivery and reason/s for termination. If the state chooses to terminate for convenience, the termination payments will generally comprise any outstanding amounts owed to the contractor for completed works as well as reasonable costs for demobilisation and materials, plant and equipment ordered but not yet paid for.

Unlike the franchise agreement, there is no set formula for determining the break costs for terminating the project alliance agreement. Rather, SRLA and the contractor will negotiate and agree on an amount, having regard to any outstanding payments and upcoming costs to be reasonably incurred by the contractor as a result of the termination.

The key difference for the termination for default provision, is that the state is entitled to recoup any costs that arise as a result of the NOP defaulting.

Operations and maintenance franchise agreement

Franchise agreement

The O&M franchise agreement covers a 15-year term from the rail service operations commencement during which the state will make the completed SRL East assets available to the franchisee, by way of a licence, to operate and maintain. The state can choose to extend the franchise term by 3 years at the conclusion of the initial term.

The contracted rail service operations commencement date is 24 May 2035. This leaves 7 months of program contingency to meet the government's commitment to commence rail services by 2035.

The O&M franchise is a fixed-price contract. The total contract value is approximately $3.9 billion. TransitLinX increased its franchisee cost estimate by 2.6 per cent following the RFP phase, from $3,774.3 million to $3,874.2 million. This was largely due to a change in the expected commencement of operations date and a commensurate increase in escalation costs.

The franchise agreement is based on service payments and the franchisee is not entitled to any 'standby' payments until services commence on Rail Day One. However, the agreement does include a schedule entitling the franchisee to compensation if certain defined change events occur prior to, or following, operations commencement. For example, if there are changes to the Linewide delivery works or tunnels and stations assets prior to operations commencement, or a change to the service requirements following operations commencement.

The contracted costs will be indexed prior to rail opening to be brought in line with the agreed CPI and Wage Price Index movements.

At a high level the franchisee is responsible for:

- operational service delivery: the number and frequency of trains, journey times, operating hours, customer service, disruption management, cleaning and station operations
- asset management: managing and maintaining the SRL East railway assets and infrastructure.

The SRL East rail network will be Grade of Automation Level 4. This is the highest level of railway automation and involves a fully automated and unattended system. All train operations, including starting, stopping and door control, are fully automated, meaning there is no need for human intervention on the train. Trains are monitored remotely, with human intervention only required in the case of system failure.

The franchisee is contracted to meet minimum service levels based on train frequency and maximum journey times. Figure G6 summarises the contracted service specifications. The franchisee is required to maintain train frequency at a minimum of once every 6 minutes during peak times, and once every 10 minutes at all other times.

Figure G6: Service periods and minimum train frequency

Service period	Times	Minimum frequency
AM peak	Weekdays – Cheltenham Station and Box Hill Station departures between 6.30 and 9.30	6 minutes (10 trains per hour)
PM peak	Weekdays – Cheltenham Station and Box Hill Station departures between 15.30 and 18.30	6 minutes (10 trains per hour)
Non-peak	All other times	10 minutes (6 trains per hour)

Source: VAGO, from SRLA.

The contract also requires the franchisee to maintain a maximum end-to-end journey time of 21 minutes and 45 seconds for each train.

The franchisee will receive monthly service payments following the commencement of SRL East rail services in 2035. These will be performance-based payments and will be reduced if the O&M franchisee fails to meet the agreed performance standards relating to service availability and timeliness. This includes a 'no service no fee' provision under which the franchisee receives no payment if:

- service availability drops below 50 per cent
- timeliness drops below 50 per cent.

The franchisee will not receive a share of farebox revenue. This means the state will fully bear the patronage risk for the new rail line. The extent to which this will materially impact the O&M funding is unclear.

Funding for the O&M phase has not been approved and is subject to a future submission to the government. Advice to the government in December 2023 and as early as August 2021 indicated that SRL farebox revenue was not expected to meaningfully offset the anticipated additional expenditure during the O&M phase.

Termination provisions

SRLA entered into the franchise agreement in December 2025, almost 10 years before it expects to commence railway operations in May 2035, to ensure that the franchisee would play a role in the design and delivery of the assets it will be responsible for. However, there are risks associated with entering into the agreement so far in advance. SRLA has broad termination for convenience rights under the franchise agreement and can pull out of the contract at any time both prior to and following commencement of services. This is designed to shield the state from potential risks.

The franchise agreement provides 4 reasons for termination, including for termination prior to the commencement date. The options for termination are:

- termination for convenience: the state may terminate the contract at any time and for any reason by providing 60 business days' notice to the franchisee
- termination for force majeure: either party may terminate the contract if and when a force majeure event occurs. For example, an earthquake or other natural disaster
- termination for default termination event: the state may terminate the contract if a default event occurs. For example, where one or more members of the consortium becomes insolvent, unacceptable performance by the franchisee, or the franchisee's rail accreditation is suspended or cancelled

- termination for viability: the state may undertake a viability review, either at its own instigation or at the request of the franchisee. The state may choose to terminate the contract based on the review outcome.

The state has the right to terminate the contract for convenience prior to the commencement of services in 2035. In this instance, the franchisee is entitled to a lump sum payment of $12 million and any outstanding amounts owed to the franchisee by the state, reasonable redundancy payments, and costs for subcontractor termination including demobilisation costs and the value of plant and equipment. These payments are offset by any of the franchisee's liabilities to the state and any gains (which are paid to the state) and costs realised by the franchisee as a result of contract termination.

The franchisee has very limited options to terminate the contract.

The termination costs post–service commencement are likely to be significantly higher than if termination occurred earlier because the franchisee is entitled to any outstanding service payments, which are not relevant prior to service commencement. Site demobilisation costs and reasonable redundancy payments are also likely to be greater.

The franchisee's entitlements vary for termination under the remaining 3 circumstances but generally consist of outstanding amounts owed by the state to the franchisee, minus any liabilities owed to the state.

Fit-for-purpose warranty

The fit-for-purpose warranty is a key part of the O&M franchise agreement. The warranty is designed to assure the state that the rail assets delivered during the project construction phase are suitable for use and will remain so throughout the term of the franchise.

Under the agreement, the franchisee is required to warrant that on and from Rail Day One all SRL East assets and infrastructure including tunnels, stations and Linewide:

- are and will remain fit for purpose throughout the franchise term
- comply with the requirements of the O&M franchise agreement and all applicable laws and standards.

Under this warranty the franchisee is required to promptly rectify all defects as soon as they are identified, except to the extent the defect is:

- in the tunnelling and stations assets and the applicable defects correction period has not expired
- a structural defect in the tunnelling and stations assets
- required to be rectified by the delivery alliance (in accordance with the project alliance agreement) during the applicable defects correction period
- accepted or rectified by the state in specified circumstances.

The warranty is intended to shield the state from major cost risks in the future.

As a NOP under the project alliance agreement, the franchisee should have sufficient oversight and input into the design and delivery of the rail works to reduce this risk further.
