



Eddington on the wrong track with transport recommendations



It appears quixotic to recommend two new rail links of marginal economic importance.

ONE of the hardest things is to admit error. In my comment on the East West Needs Assessment by Sir Rod Eddington (Business Day, 7/4) I said the urban rail system was carrying only half the passengers it managed in 1927.

I was rightly taken to task by study leader Tony Canavan (BusinessDay, 8/4). I should have said that during the busiest hour of the peak, the number of suburban trains that passed through Flinders Street station was 116 in 1929 compared to fewer than a 100 now, with new services to be introduced this month.

Rail line capacity is determined by the number of tracks and platforms in the peak direction of travel, at the busiest point in the system. According to transport planner Paul Mees the city centre has eight inbound tracks and platforms and each of the tracks can accommodate 24 trains an hour so that the capacity of the city centre is 192 trains an hour.

According to the official history of the Victorian railways by L. J. Harrigan, the system was designed to carry 24 trains an hour per track. These figures suggest the urban rail network has the capacity to carry twice as many trains as it does now.

According to Mees, the capacity constraints on the network are political, but the Government uses the argument that the system cannot be expanded without expensive line duplication such as the promise for a third Dandenong line, which will be built after the next election.

The 1999 rail and tram franchises have resulted in annual

subsidies from the taxpayer twice the level of when they were run by the public transport authority. The reorganisation of the franchises in 2004 resulted in a new agreement in which the subsidy was no longer tied to patronage growth.

According to Mees this meant "the current operators have little incentive to seek new patrons — especially in peak periods, which are most expensive to serve . . . In such an environment, the regular assertion of non-existent constraints on rail capacity by all of the key players — government, regulator, operators — becomes easy to understand".

Given the Government's antipathy to even moderate extensions to the rail network such as the Aurora, South Morang and Rowville extensions, the extra line to Doncaster and electrification of the line to Melton costing \$2 billion in total, it appears rather quixotic for Eddington to recommend two new rail links of marginal economic benefit that will cost about \$8 billion.

They are a new rail link between Werribee and Sunshine (an expensive detour for Geelong trains) and a rail tunnel between Footscray and Caulfield (an area already richly served by public transport compared to outer suburbs).

Further, Eddington stressed that the two rail projects should be seen as a package with the east-west road/tunnel project. That is how he has presented the benefit/cost study in the body of his report.

By combining the road and rail projects, Eddington comes up with a benefit/cost ratio

(BCR) of 1.4. This means that in present value terms (discounting for the future) for \$15 billion expenditure there would \$20.4 billion return.

This is a poor return on investment. The industry standard is that investors will not touch an infrastructure project with a BCR less than three. This means a return of \$3 for every \$1 cost. In New Zealand, the BCR cut-off is four.

But the project is a far bigger dog than presented by Eddington. The standard measure of "benefits" in a BCR that is used to assess infrastructure funding provided by the Commonwealth is limited to time saved, vehicle operating costs saved, reduced crash costs, externalities (reduced pollution) and revenue from tolls or fares.

Based on the standard benefit/cost analysis, the three projects combined produce a benefit/cost of 0.7. In other words, investors could hope to get 70% of the value of their investment, eventually.

To get the BCR up to a value of 1.0, Eddington has added wider economic benefits (WEB), valued at \$3.3 billion. According to Eddington "the most significant contributor to this increased benefit is what is known as 'agglomeration economies'. This is the clustering effect that occurs when better transport allows more workers to be connected with more and more better jobs, and when transport facilitates more efficient business interaction".

As the report states, the WEB concept was used for the Eddington Transport Study in Britain. But Eddington then



adds \$6 billion of benefits, which it is claimed represents “community benefits of tunnelling” and a further \$1 billion from “additional congestion relief” which brings the BCR up to 1.4 — still unsatisfactory.

The technical report for the BCR was undertaken by Meyrick and Associates in conjunction with Steer Davies Gleave and Econsearch.

It is significant that they

have not included the “community benefits of tunnelling” and the “additional congestion relief” in their report.

The technical report on the BCR by Meyrick and Associates provides enough information to calculate BCR for the road/tunnel option alone. This shows a conventional BCR of 0.5.

This means that investors would get half the value of their

investment back . Even if BCR had been boosted by \$2 billion, its share of the WEB, the BCR would still only have been increased to 0.7 — which still leaves it as a losing proposition.

If Eddington had run a disinterested inquiry he would have recommended against the road/tunnel project as soon as he had got the Meyrick study.

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