

BACK-DOOR PRIVATISATION: LIGHT RAIL IN SYDNEY

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Although the new light-rail line in Sydney is to serve the inner-urban areas of Pyrmont and Ultimo, the privatisation contract has some important clauses that refer to the possibility of extending light-rail to the central area. Accordingly, this paper first discusses the historical experience from the time when central Sydney was served by trams, and then moves to the present privatisation campaign.

A CENTURY OF TRAMS

The first street passenger tramway in Sydney opened in 1861, when horse-drawn cars entered service between Railway Square (the original heavy-rail terminus) and the wharves at Circular Quay, which received ferry passengers (Keenan, 1991, p. 3 and pp. 5–7). Incidentally, the tramway venture was an early example of government ownership with contracting-out of construction and operation.

Later developments and extensions saw the introduction of steam trams, cable trams and then electrification, which began in 1890 (Keenan, 1979, p. 6). One hundred years ago, the trams carried about 40 million passengers annually (NSW Government Tramways (1930), p. 73). The tram network continued to develop, and to encourage expansion of the urban area as the population increased. When patronage peaked (during the second world war), the trams were carrying more than a million passengers per weekday, on a network of about 180 street miles. Services declined in the 1950's as diesel buses were substituted, and the last tram route was closed in 1961 (Keenan, 1979, pp. 5–6, p. 13 and p. 87).

Within that metropolitan picture, the focus here is on tram service in the Central Business District, which is unusual in that it is a narrow rectangular area, oriented on a north–south axis. Connecting Circular Quay at the northern extremity and the (heavy-rail) Central Station at the south, there are four adjacent, principal streets, separated by three short city blocks.

In the years just before 1926, there was still no heavy-rail service within the CBD. Accordingly, many passengers travelling on rail or ferry transferred to or from trams for the CBD portion of their journeys. Among the tram services was one short line which connected the Quay and Central Station:

There was, perhaps, no tramway service operating anywhere which was so advantageously placed as that running between Circular Quay and Central Railway Station, via Pitt Street on the journey to the Station, and via Castlereagh Street on the journey to Circular Quay, a [one-way] distance of approximately 1½ miles. Unlike the vast majority of services where the principal loading is in one direction only at the same time, excellent loading was obtained in both directions throughout the day, from the ferries at one end and from the trains at the other end.

About 33% of the passengers travelled either through to the Railway or through to Circular Quay, the remaining 67% travelling to and from intermediate points on the route.

About 30,000,000 passengers per annum were carried on this route, and it necessitated the provision of a service at one and two minutes interval during the slack hours of the day, and at twenty-seven seconds interval during the business hours. (Neale, 1933, p. 5)

Besides that elongated loop line, trams also used the other two principal streets, George Street and Elizabeth Street. Most of these routes too served both Central Station and Circular Quay. There was also one cross line which began at Erskine Street wharf (on the western edge of the CBD), travelled on King Street as it crossed the four principal streets, and then went out to the east. All these routes carried passengers on short journeys within the CBD.

As the tramway patronage increased, the city streets became congested, mainly because of the presence of so many trams. Accordingly, the heavy-rail lines were extended into the CBD in tunnels, with sections opened in 1926, 1932 and 1956. The 1932 extension was opened at the same time as the Harbour Bridge, which then carried trams (as well as heavy-rail services and a few cars). Opening the Bridge greatly reduced the ferry patronage at the Quay.

These changes reduced the numbers of tram passengers on journeys that entered or went outside the CBD. But even from the Pitt Street and Castlereagh Street loop line *alone*, Neale's estimate suggests that there remained some 20 million *intra-CBD* journeys to be served. The total number of such journeys in 1923/24 may have been as high as 60 million, according to NSW Government Tramways data on pink (first section) tickets sold.

Once all the heavy-rail sections were opened, there were five (now six) CBD stations (other than Central). That at Circular Quay is elevated, while the others are underground. All are inconvenient in access, which discourages use of the rail services for short journeys. Furthermore, timetabled headways (of trains comprising four, six or eight double-deck cars) are often 10 minutes or more; and actual headways can be very varied, since punctuality is not part of the State Rail Authority (SRA) culture. Given all these impediments, surface transport might be expected still to play an important role in the CBD.

In the outcome, although many of the present bus services run *through* the CBD, to terminate at or near Circular Quay, loadings within that area are often light. Prospective passengers are discouraged in many ways. The buses run through several different streets, on routes that are not easy for the passenger to learn, thanks in part to the customary lack of 'legibility' of bus routes (compared with the light-rail presence of tracks and street furniture). Headways can be large; and vehicles bunch together, even on journeys originating in the CBD. In some places, there are long distances between stops. The buses are not well designed for rapid boarding, journeys are slow (in part because buses do not have priority at the many traffic signals), and the ride can be rough when the driver manoeuvres in traffic.

These features no doubt help to explain the modest extent of intra-CBD passenger journeys by bus. Although data are not available, informed commentators suggest the figure is unlikely to be more than 40,000 journeys per weekday – say 12 million per annum. Although employment in the CBD has decreased slightly since its peak, the total now is surely higher than in the heyday of the tram services. The construction of high-rise buildings has yielded underground car parking for commuters; this reduces peak-period use of public transport for

travel to and from the CBD. But car travel is not an alternative for intra-CBD journeys. Further, the current trend towards City living (resulting in the construction of high-rise *residential* buildings) adds to the demand for 'local' public transport. In short, the buses presently serve only a fraction of the potential demand that would materialise if the CBD had high-quality public transport.

THE GENESIS AND NATURE OF THE PYRMONT LIGHT-RAIL LINE

The idea of re-establishing trams in Central Sydney was taken up as early as 1974, when the Melbourne tram operator undertook a small feasibility study at the request of the NSW Minister for Transport. (The rival city of Melbourne has retained its tram network, and has extended it in recent years.) The report considered two alternative routes running between Circular Quay and Central Station. As part of the proposed regime, most bus services reaching the CBD from the south and west were to terminate at Central, which was to become a modal interchange (Melbourne and Metropolitan Tramways Board, 1974, esp. p. 7 and pp. 21–2).

However, there was no realistic prospect of the re-introduction of trams until September 1992 when the NSW government signed an agreement made under the *Building Better Cities* program of the Federal government. This agreement included "a light rail project as a key element of strategies to revitalise the Ultimo–Pyrmont area" (NSW Dept. of Transport, 1996, p. 2). No doubt, the NSW government's appetite was whetted by the willingness of the Federal government to provide most of the \$20 million or so envisaged as a capital subsidy. In 1992, the total light-rail cost was thought to be about \$40 million.

The proposal was for a route of some 3.7 km starting from Central Station, running west along city streets in Ultimo and then turning north along an old (now disused) right-of-way for heavy rail, to serve the Pyrmont peninsula, which is separated from the CBD by Darling Harbour. With old industrial activities coming to an end, the area is being redeveloped for residential purposes, with some new commercial uses too, including a major project for a casino with an associated hotel. Besides encouraging prospective developments, the eight intermediate stops are to serve recently-established public buildings (such as the Powerhouse Museum and the Maritime Museum), and also the long-established Sydney Fish Markets.

The NSW government decided to seek tenders from private companies for a BOOT contract. The Department of Transport appointed a local consulting firm as its project manager for the process of preparing a light-rail scheme, and engaged a firm of U.S. consultants to undertake design studies and prepare "a draft system specification for incorporation into the Expression of Interest documentation" (McLachlan Consultants, 1993b, p. 1).

At the beginning of 1993, the intention was to let the contract in February 1994, with operation planned to commence in early 1996 (McLachlan Consultants, 1993a, p. 2). In the outcome, a project deed and a design-and-construct contract were signed on 2 December 1994, and came into effect on 29 November 1995 "when all the conditions precedent had been satisfied or waived" (NSW Department of Transport, 1996a, p. 3). The line is now expected to begin operation in July 1997.

The vehicle design is a locally-adapted version of the 100% low-floor Variotram; the cars are being built in Australia by ABB. During the first five years of operation, the minimum frequencies will be one tram every 5.5 minutes in peak periods, and one every 11 minutes at other times. (Apparently clock-face timetabling is not considered important.) The end-to-

end journey is expected to take about 15 minutes. As redevelopment of the area proceeds, the minimum peak-period frequency is to increase to 18 services per hour.

According to p. 1 of Dept. of Transport (1996a), the estimated total cost of the project (including capitalisation of interest) has risen to \$87.5 million, of which \$21.5 million has been provided by the governments, which have also made available a further \$3.5 million for project management and feasibility studies. The seven vehicles are likely to cost in total about \$17 million, leaving an estimated \$70 million for construction of the track and other installations; this amounts to some \$20 million per km.

The cost of the vehicles has no doubt been pushed up by government insistence on very low noise-levels, resulting in the need to adapt the design. Similarly, the choice of a 100% low-floor vehicle reflects government insistence on very high standards of accessibility.

The total cost of track and other installations depends on what if any relocation of services is needed. With most of the Pyrmont line on the old railway reservation, however, this should not have been a major factor. The discussion paper NSW Department of Transport (1992) pp. 13–15 quotes Melbourne experience. After increasing the figures given there by 20%, to make rough allowance for inflation, the identified costs for double track sum to roughly \$2 to \$3 million per km. Even if this estimate is too low, it is difficult to see how the figure reaches \$20 million per km. A partial explanation may be found in suggestions by local observers that in some respects the specification is more appropriate for heavy rather than light rail, and that the construction method is more expensive than that used in Melbourne. Even if these remarks are sound, it is not clear how such a situation has arisen.

OWNERSHIP, CONSTRUCTION AND OPERATION OF THE LINE

The (very complex) assembly of contractual arrangements made between a host of parties has not been made public. But, in keeping with provisions established by the NSW government (see NSW Treasury, 1995), the NSW Department of Transport has prepared a Summary of Contracts (NSW Dept. of Transport, 1996a). In the remainder of this section, all page references are to that Summary.

The principal private party is Sydney Light Rail Company Limited (SLRC), which is owned (p. 4) in these proportions:

- AIDC Investments Limited (39%) – AIDC is a development financier predominantly owned by the Federal government
- Utilities of Australia Pty Limited (39%)
- Legal and General Life of Australia Limited (22%)

Besides the equity capital subscribed by these three companies, debt funding has been provided by Dresdner Australia and by ABB.

SLRC has established a wholly-owned subsidiary, Pyrmont Light Rail Company Pty Limited (PLRC), whose roles are (p. 4):

- to design and construct – the company has engaged ABB as sub-contractor to supply the vehicles and construct the fixed installations
- to operate, maintain and repair during the concession period of 30.5 years – the company has sub-contracted with TNT for all this, while in turn TNT has appointed ABB as a sub-contractor for the maintenance and repair of vehicles.

PLRC also leases from the State Rail Authority (SRA) the right-of-way (p. 7).

Throughout the concession period, PLRC determines the fare levels, and receives the fare revenue. Evidently, the right-wing government in power in 1994 did not consider economic regulation to be desirable. If the Department of Transport "requires PLRC to carry passengers for free or at concessional fares, it must pay PLRC for any expenditure it incurs or revenue it foregoes as a result" (p. 11). Of course, this requires estimation of the number of extra passengers who travel on concessionary fares *but who would not travel at the full fare*.

It seems that PLRC does not pay any rent for the right of way. However, the company is to pay to the Department of Transport "one-third of net passenger revenue (total passenger revenue less tax liability) from patronage in excess of 80% of [prescribed] 1993 patronage estimates" (p. 20). Except to this extent, the risk that patronage fails to meet expectations is borne by PLRC (subject to an important qualification discussed in the next section). If PLRC fails to provide punctual service, it must pay certain damages to the Department (p. 11); but this obligation is severely limited by some provisions that are discussed below.

When the project deed was signed in December 1994, the *date for completion* was 30 June 1996. Because of delays in finalising the contract documents, PLRC successfully sought an extension (p. 10): when the deed became unconditionally binding in November 1995, the agreed date was 24 March 1997. If there is any delay in completion (p. 11), PLRC is liable for liquidated damages of \$10,000 per day, up to a maximum of \$3 million. However, in September 1995 (because of delays then being experienced in satisfying all the conditions precedent to the Project Deed), the Department of Transport agreed

- to waive this right to liquidated damages, provided the line is completed by 1 September 1997
- if completion is after 1 September 1997, liquidated damages will apply only for each day after that date.

Furthermore, the deed "specifies that the liquidated damages liabilities to the [Department] will arise only once PLRC has satisfied its liabilities to Dresdner and ABB Leasing under its project debt financing arrangements" (p. 11). In other words, payment of liquidated damages is postponed; the repayment of debt takes precedence. A similar provision for postponement applies to the payment of any liquidated damages arising from lack of punctuality.

SOME RISK PROVISIONS IN THE PRIVATISATION CONTRACT

Among the very large number of standard terms and conditions, there are several other provisions which the company has managed to establish in order to limit its exposure to risk, including even some of the revenue risk. (In the following discussion, unattributed page references are again to NSW Department of Transport, 1996a).

Risks Arising From the Company's Own Actions

Under the Project Deed, the obligation of PLRC to proceed with the project did not become effective until the company had managed to make "financing arrangements sufficient to fund construction and operation" (p. 9). Of course, the company's position in seeking such funding was bolstered by its being the franchised company under the terms of the Project Deed.

PLRC was required to lodge a security of \$2.5 million with the Department of Transport, to back "its obligations to finance, design, construct and commission the project [This] security had to be in the form of cash, an unconditional bank guarantee or another form ap-

proved [by the Dept. of Transport]" (p. 10). The Summary (p. 9) describes this condition as being "for the parties' mutual benefit". Relative to the monetary value of the public sector inputs that are put at risk, a security amount of only \$2.5 million seems rather small.

Risks Arising From the Actions of Third Parties

The new Sydney Casino is expected to be a major traffic generator. Owned by a private company, it has a licence granted by the NSW Government, and is already operating in temporary premises. "If the permanent Casino opens for trading more than 12 months after the light-rail system is completed, or after 31 March 1998 if this a later date, the [Department of Transport] will be liable to pay PLRC \$8,219 per day until the Casino opens" (p. 12).

It now seems most unlikely that this provision will be invoked, especially as construction of the light-rail line has been delayed. But, in any case, is it proper for a government to accept such a penalty when the opening date is at the discretion of a private company?

Risks Arising From the Actions of Government

The major protections obtained by PLRC relate to actions of governments. The Project Deed became effective only after the company had received from the (Federal) Taxation Office a binding (private) tax ruling concerning the treatment of company revenues and costs, in a form that satisfied PLRC. On the other hand, the company carries the risk of any subsequent changes in general (Federal) taxation law (pp. 9 and 20).

The other protections relate to actions of the NSW government. Besides a large number of matters directly related to the usual issues that arise in business contracts, the protections include these:

- "If land tax is levied on PLRC, the Department of Transport will reimburse this amount" (p. 21).
- The Department of Transport expressly acknowledges "that the light-rail system is intended to be the primary public transport link between the Ultimo-Pymont area and Central Station". The Department must consult with PLRC before permitting any new or extended regular passenger service in the area, and in the event of such introduced services resulting in provable detrimental effect on PLRC's revenues, the Department will be liable to compensate PLRC for that company's losses (p. 12).

This last provision illustrates a common phenomenon in the privatisation of transport infrastructure (Mills, 1996): the private company seeks to prevent competition, and insists on compensation should the government permit new entry. (Although historical precedent does not excuse the practice, it is worth noting that while 19th century UK legislation commonly permitted construction of rival railway lines, U.S. practice often afforded a local monopoly. An early and influential example of the latter is to be found in the 1831 charter of the Boston and Worcester railroad – see Salsbury (1967) p. 86.)

In summary, a company that is highly risk-averse has been able to secure some very significant protections, to the extent that the usual efficiency claim for privatisation is called into question. The company has *also* secured an extra provision that hampers efficiency in the introduction of further light-rail routes; this matter is so important as to merit extended discussion in the following sections.

NETWORK EXPANSION: OPPORTUNISM AND LONG-TERM STRATEGY

As seen earlier, current and past experience suggests that replacement of CBD bus services by trams might be very successful. Yet the initial light-rail line serves instead an inner-urban area. After allowing for developmental and other social benefits, the Pymont project may well have considerable social value in the longer term. On the other hand, initial patronage levels may make the early financial returns marginal, at best. The company rationalises the government capital grant as being necessary for construction of the line some time before substantial passenger demand materialises.

It seems reasonable to infer that the company might have been keener to start in the CBD – though it is only fair to add that the Pymont location may be seen by the company as giving a chance to learn how to operate such a service in a situation where any teething troubles will have little impact on the functioning of the metropolis. Recognising that the CBD offers the main financial prize, it is natural to ask about the company's motives. Is the Pymont service desired in its own right? Or does the company see it merely as a means to an end?

Even if the Pymont line itself is financially attractive, there are two distinct reasons why that company may wish to operate further routes as well. The first is the usual desire to grow, and hence operate (and profit from) a larger business.

The second arises directly from network interdependence. Development of other, complementary routes would increase demand on the Pymont line, especially if SLRC itself can control the fare structure. Joint ownership would allow SLRC also to avoid disputes about allocation of revenues from through fares for journeys made exclusively on the light-rail network. (Of course, this reflects the general argument *against* fragmentation of network ownership – see also Mills, 1995.)

These observations cast an interesting light upon some extension provisions in the Pymont contract. According to the Summary of Contracts (pp. 12–13). “If the [Department] intends to extend the Ultimo–Pymont light-rail system (e.g. to the west or into the CBD) or have other light-rail routes join the system, it must ... negotiate with PLRC on terms and conditions” under which such services are to be provided. If the parties do not reach agreement within 90 days, the Department of Transport is allowed to call for tenders.

If the Department accepts such a tender (that is, from another company), then the successful tenderer must buy out the PLRC assets, on terms that depend on the timing:

- if the purchase occurs during the construction period of the Pymont line or within a year of the start of operations of that line, then the price to be paid “is the agreed total cost of the project's works [after allowing for the government funding], plus 20% interest”
- if the purchase occurs later, the price is “115% of the fair market value of the system”.

The effect of these is to give the company first right of refusal on any other interconnecting light-rail projects that may be proposed. Furthermore, any other tenderer would have to bid high, to cover the extra cost (of 15% of the Pymont fair market value). In turn, this allows SLRC to bid high and still win, should the Department of Transport be so obstinate as to insist on going to tender. Thus a bidding competition could never result in a contract that was expected to return only a competitive rate of profit on the new line (considered by itself).

Some Public Interest Considerations

By agreeing to give these extension rights to SLRC, the Department of Transport has entered into long-term commitments which restrict its ability to shape public policy. The same must be said of the commitment not to provide competing transport services in the Ultimo-Pymont area without paying compensation to PLRC. It is by no means clear that the acceptance of such commitments is in the public interest – or even proper, in the sense of being consistent with good government.

On the grounds of concern for economic efficiency (as well as probity), there is also a very important question concerning even-handed treatment of rival tenderers. In July 1993, the Department called for expressions of interest. In November 1993, after considering the responses, four groups were invited to tender. All did so. On 30 June 1994, the Department signed heads of agreement in favour of SLRC, “setting out the broad parameters for the contracts to be negotiated” (NSW Dept. of Transport, 1996a, p. 2). There followed five months of negotiation before the core agreements were signed.

In the invitations to tender, did the Department of Transport indicate that it might be willing to give the successful tenderer first right of refusal over line extensions? Or did this idea materialise only in the course of negotiations with SLRC?

The Summary of Contracts casts no light on this. That report was reviewed by the NSW Auditor-General who also obtained 115 other documents before certifying (on 16 April 1996), that “nothing has come to my attention that causes me to believe that the [Summary] does not fairly evidence the contractual arrangements.” However, the text of the invitations to tender does not appear to be one of the 115 documents listed and examined by the Auditor-General, who – it appears – was not asked to examine directly the process that led to the contracts being signed. On the other hand, the Minister for Transport took care to appoint a probity auditor to consider the tendering and other processes. And that auditor “reported his satisfaction from a probity viewpoint” (p. 23). Thus we can rest assured that all is well.

It is worth pointing out, however, that the question raised here is but an example of the general difficulty that arises when there is private negotiation between a government and a preferred tenderer.

The remaining issue is why the Department would enter into such a long-term commitment. Was the decision taken because of myopic concerns for getting something done in the short term, and securing this at “reasonable” (short-term) cost? Did the public servants – and the politicians – realise the significance of granting the company the first-refusal rights?

THE PYRMONT LINE WITHIN THE SYDNEY NETWORK

When the Pymont line opens, it will be embedded in a transport network that is predominantly operated by public-sector agencies – there *are* many bus routes served by private companies, but almost all of these are concentrated in the western suburbs, well removed from the central and inner-urban areas. Thus, in establishing *through-ticketing*, PLRC has to deal with the State Rail Authority (heavy-rail services of City Rail) and the State Transit Authority (which operates Sydney Buses and also Sydney Ferries).

In describing the light-rail project, the NSW Department of Transport (1996a, p. 1) promises (rashly?) that “Integrated, multi-modal ticketing will link the light-rail system with trains,

buses, ferries and the monorail. Fares are anticipated to be broadly comparable with State Transit fares." (Incidentally, the monorail is presently a minor carrier, owned and operated by TNT; it serves Darling Harbour, and its patrons are principally tourists and those having a holiday.) It seems that the monorail and the Pyrmont line will indeed have through ticketing. Passengers travelling between Pyrmont and the Town Hall area of the CBD could use both lines, with a reasonably convenient transfer.

Now the SRA and the STA employ a common system of magnetically-coded tickets. But divergent organisational aims may preclude close cooperation between that duo and PLRC. In the case of single-journey and return tickets, there will be argument about allocation of revenues from joint fares; failing agreement, through fares may still be arranged, but priced at the sum of the parts. Furthermore, many SRA and STA patrons buy weekly passes. Thus access to the travel-pass schemes is of great importance for PLRC, and for the public interest. On the other hand, STA, in particular, has an incentive to keep out PLRC: besides short-term revenue considerations, there is also at stake the future role of the Sydney Buses network in central Sydney. This matter is taken up in the course of the following section.

RECENT POLICY DEVELOPMENTS

In 1996, there were two important, complementary developments, dealing with (respectively) extensions to the Pyrmont line, and provision of a general legislative framework for light rail in New South Wales.

The latter provision is required because of gaps left by earlier legislative tidying-up: "When trams last ran in Sydney, they operated under a mix of provisions of the Transport Act 1930 and parts of the Railway Act 1912, both of which were abolished in 1988" (NSW Treasurer, in the Legislative Council, 28 November 1996, *Hansard* p. 6771). In the other house, the present (Labor Party) Minister of Transport said that his (right-wing) predecessor had been "happy to go off and make a press release about someone else paying for light rail in Sydney, but at no stage did he try to present to the Parliament a legislative framework to enable a light rail system to run" (Legislative Assembly, 20 November 1996, *Hansard* p. 6347).

The result of these parliamentary deliberations is the Transport Administration Amendment (Light Rail) Act 1996 which facilitates the development of further light-rail lines, but does not commit the government even to authorisation, let alone to financial support. Rather, the Act smooths the path in regard to planning, environmental and land-ownership issues, in contrast to the complex and delay-causing *ad hoc* procedures that were used for the Pyrmont line.

The Act also has two other purposes: it provides a legal framework for some aspects of light-rail operation, including fare-collection and enforcement, and third-party insurance – provisions that are needed before the Pyrmont line can open! (The Act also exempts light-rail companies (including PLRC) from stamp duty and land tax.)

Thanks in part to some amendments that were forced upon the government (which does not have a clear majority in the upper house), the Act also seeks to deal with the bureaucratic infighting that may arise if the Roads and Traffic Authority (a government agency which, its critics say, is much too powerful) makes road plans that would hinder light-rail development (*Hansard* Assembly, 20 November 1996, pp. 6344 and 6348–9).

In regard to the Pyrmont line, it appears that the government is at present not willing to give directions to two of its other bureaucracies: it seems that PLRC has been left to deal with the SRA and the STA over through-fares and travel-pass access, without the government taking a public-interest stance. This government attitude might be justified in a competitive market. But that consideration does not apply here, since the SRA and the STA both receive government funding, and still enjoy considerable protection from competitive entry.

Further Light-Rail Lines

In NSW Dept. of Transport (1996b), it is reported that the Department and SLRC "have studied jointly the feasibility of extending light rail to Central Sydney and to [the west]. The Company has recently made a formal proposal to the Minister for Transport to build and operate such extensions, which is now being assessed."

The extension through the CBD to Circular Quay would follow the route used earlier this century by the trams (cf. the quote above from Neale, 1933), but with vehicles traversing the loop in the opposite direction. (Pitt Street and Castlereagh Street are separated by only one city block. The tram direction of operation was chosen for the convenience of passengers, allowing most of those using the northern CBD to walk down hill from the tram rather than up hill to the tram.)

At March 1997, the Minister's decision is still awaited. The issues that face the Minister are both political and economic. Although it is widely accepted that a light-rail service in the CBD would have much less adverse environmental impact than the present bus service, there has been some trader opposition, notably from a large insurance company which owns some commercial property in the CBD.

In regard to costs, a community newsletter (*The Glebe-Leichhardt Light Rail Update*, Issue No. 2, Winter 1996) claimed that SLRC estimates the capital cost of the CBD extension at \$170 million, and seeks \$37.5 million of this from the government. However, a recent press report (*Sydney Morning Herald*, 19 March 1997) suggests that the company now seeks little or no capital grant. Furthermore, the quoted capital cost seems remarkably high. The 1974 Melbourne study gives a summary (p. 51) of its estimates of capital costs: construction about \$6 million, and vehicles about \$5 million. (The details in the appendices include a warning about the difficulty of estimating the costs of relocating services.) After adjusting for inflation, the total cost is about \$55 million in today's dollars. At the least, there is a case for critical scrutiny of any estimate of \$170 million.

Some Policy Options

In considering government policy concerning further light-rail lines in the CBD and elsewhere, the Minister faces several major issues:

- Notwithstanding the Pyrmont precedent, it is still possible for the government to offer BOOT contracts that include powers for the government to regulate fares. Whether it seems desirable to do this depends on judgements about how skilfully the powers would be exercised. The case for regulatory powers is particularly strong in the CBD context: there, the demand is likely to be so great as to yield considerable economic rents in the absence of fare regulation. This would be especially important if the capital cost can be

kept to a lower amount, and if through-ticketing is arranged, as is essential if the public interest is to be served. For other lines, it must be recognised that inclusion of fare-regulation power may increase the size of the capital grant required from the public sector. Of course, this does not imply that fare regulation will necessarily have an adverse effect on economic welfare.

- If the Minister thinks it desirable to protect the public interest, the CBD light-rail service could be established as a separate line, without physical interconnection of tracks and hence without through running. It is to be hoped that SLRC would then not enjoy any right of first refusal – though it must be recognised that it is the precise wording *of the contract* (not the Summary) that will be considered by the court in the event of legal dispute. Provided the CBD line runs close to the Pymont line in the area near Central Station, interconnecting passengers should not be greatly inconvenienced. It should also be recognised that separation of the two services would require some new thinking about location of depot facilities for CBD vehicles.

On the other hand, for any westward extension of the Pymont line, through running of vehicles is an absolute necessity. Since such extension presumably requires a capital grant from government, the Minister may be able to take a tough stance in negotiations with SLRC, to minimise the cost to the taxpayers of the unwise contractual provisions.

- The costs of further services can be kept to a sensible minimum by setting lower performance standards for the vehicles, especially in regard to accessibility and (perhaps) noise. On the former, it is sufficient to have a modest portion of the vehicle as low-floor, as is common in many of the current European designs. (Incidentally, physical separation of the CBD and Pymont lines would avoid the need to mix different vehicle types on the same track.)
- A major question concerns the future CBD role for Sydney Buses. On environmental grounds, and for reasons of service quality, the balance of advantage surely lies with withdrawal of bus entry to the CBD for at least some of the present routes. Passengers presently carried into or out of the CBD could then transfer from or to buses at one or more points near Central Station, pending construction of further light-rail lines serving selected suburbs.

Such a radical change involves backdoor privatisation, however: privately-owned light rail would take over from public-sector bus operation. This implication may not be unwelcome to the right-wing parties. (Indeed, when their coalition government signed the original contract, the extension provisions may have been seen as a way of securing further privatisation.)

However, the 1996 government documents (issued after the Labor Party had formed a new government in early 1995) appear to envisage light rail supplementing rather than displacing bus services. SLRC, on the other hand, seems to have no such inhibition: in an undated brochure (*Sydney Light Rail – Who we are and what we're doing*), the company says "The primary role of trains, buses and ferries is to bring people to and from the city. Light rail supports this by carrying people across the city."

Whatever the extent of the transfer of patronage, Sydney Buses would be the loser – in terms of the size of its operation, though not perhaps in financial terms. From the point of view of the public purse, and of aggregate economic welfare, the capital cost of a CBD light-rail route is reduced by important cost offsets, including avoiding the cost of

expensive bus operation in the CBD, and making it easier to kill off SRA ambitions to create extra heavy-rail capacity in the western part of the CBD (a scheme which seems to have few obvious benefits to set against the very large capital costs).

Will the Minister be willing and able to override the vested interests of these two powerful bureaucracies?

CODA

Privatisation, it is said, is important because it allows the efficiency of market decision-making to replace the economic bungling of government bureaucracies and politicians. For light rail in Sydney, the story so far shows how the reality can fall short of the ideal. There seems to have been little by way of competitive economic pressures exerted on the private parties. And other public-sector shortcomings have also crippled the arrangements made for privatisation. This experience suggests an important policy issue: given the shortcomings in much public-sector performance, how should the privatisation process be designed?

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