

# Key Treasury Findings Tasmania's North East Rail Corridor Assessment

July 2018

# Key Treasury Findings

The Department of Treasury and Finance was tasked by the Treasurer to undertake an assessment of the costs, benefits and risks of the two potential projects for the North-East rail line that runs from Coldwater Creek to Scottsdale. These projects are Dorset Council's rail trail and the Launceston and North-East Railway's heritage rail proposal.

Treasury's paper, *Tasmania's North-East Rail Corridor: Assessment of the Launceston and North-East Railway and the Rail Trail Proposals*, outlines the Department's full assessment of both proposals, as well as an outline of the next steps that would be required under the *Strategic Infrastructure Corridors (Strategic and Recreational Use) Act 2016*. The purpose of this paper is to summarise Treasury's key findings relating to each proposal.

## North-East Rail Trail

The North-East Rail Trail has been proposed by Dorset Council for non-motorised recreational users, primarily cyclists but also walkers. The objective is for the trail to run from Scottsdale westwards towards Coldwater Creek and then by way of other trails and minor roads, to reach Launceston. The trail will join up with an existing trail that runs from Scottsdale eastwards to Billycock Hill.

Dorset Council applied to the Australian Government's National Stronger Regions Fund (NSRF) and received \$1.47 million in matching funding for the total project cost of \$2.94 million. To receive all the Australian Government funding, the project would have to be completed in around 18 months.

Dorset Council has indicated that the trail would need to reach a township with access to main roads and attractions to be successful and has indicated that it would need to reach at least to Lilydale or Lalla.

Dorset Council has now advised that the estimates are considerably less than anticipated, primarily due to a different method for crushing the ballast on the line that will form the base of the trail.

An incorporated association has been formed to be responsible for the maintenance of the trail and is confident that the estimated \$25 000 per year maintenance and weed-control spray costs can be met through a combination of volunteer work, sponsorship of the trail, donations and merchandise.

Treasury expects that Dorset Council has sufficient funds via its NSRF grant and its recurrent income to develop the rail trail and to deal with any potential cost overruns.

The benefits of the project are less clearly defined. Studies on rail trails around Australia and in New Zealand have estimated that rail trails can provide very significant economic benefits to local communities, but there are no similar rail trails within Tasmania to provide a basis for comparison.

However, there are several encouraging trends that support the project. Firstly, the number of visitors to the State, and expenditure by visitors, has been increasingly strongly in recent years. Secondly, there is strong evidence that the demand for cycling, in general, has been increasing. These two factors explain an upward trend in the number of interstate and international visitors to Tasmania participating in cycling activities. The project also aligns closely with the Tasmanian Government's Tasmanian Cycle Tourism Strategy released in September 2017.

The initial proposal is to extend the rail trail to Lilydale Falls, with one proposed option for a track of around two kilometres along Golconda Road to be established between Lilydale Falls and Lilydale. It is not certain that Dorset Council would have sufficient incentive to extend the trail further towards Launceston, given it would be entirely in the Launceston City Council

municipality and given that there is no direct road access to the line past Turner's Marsh. It is unclear how the rail trail could be developed for the section of corridor from Turner's Marsh to Coldwater Creek given that the rail line is operational after the Coldwater Creek junction.

Treasury has assessed the risks associated with this initial stage of the rail trail proposal from Scottsdale to Lilydale/Lalla as low. The costs to the ratepayers of Dorset Council are modest and there is unlikely to be a need for State Government or other assistance, except potentially for a track from Lilydale Falls to Lilydale.

Market trends, particularly increased tourism in Tasmania and the growing demand for cycling, support this proposal. The project has the potential to deliver significant local economic benefits, depending on the level of demand and investment by businesses, particularly local businesses.

## Launceston and North-East Railway

Diesel Traction Tasmania, trading as the Launceston and North-East Railway, is a volunteer organisation that has proposed a tourist railway to run on the North-East rail line. L&NER is operating in conjunction with the North East Residents and Farmers.

L&NER proposes to develop the line in several stages. The business model is predicated on L&NER relying heavily on volunteer labour to restore the railway line and associated infrastructure, section by section, and also to contribute to the operation of the services and undertake regular maintenance. It is also proposed that labour under the Work for the Dole employment program is utilised on this project.

It appears the intention is to build up cash reserves over time for the necessary future capital expenditure where grant funding or sponsorship cannot be secured, especially for crossings and bridges, for the latter stages. Discussion with L&NER have revealed that the project plan sets a six year period to restore the entire railway line.

In its report to Infrastructure Tasmania during an earlier review of the railway proposal, Raylink Consulting estimated a rehabilitation cost for the link of just under \$16 million, assuming zero cost for rails and sleepers as these would be sourced from TasRail. This estimate also uses commercial rates for labour, as Raylink was not able to assess how much labour would be available from volunteers or under the Work for the Dole employment program.

L&NER engaged the services of BobV Rail to examine the condition of the line and estimate the rehabilitation costs. The only cost estimate available is for the line from Lilydale to Wyena, which is \$1 10 388 and includes a contingency of 20 per cent. This includes a cost estimate of \$17 990 for track infrastructure. The equivalent cost from Raylink was just under \$4 million for Lilydale Falls to Wyena.

A major difference in the costings is the cost of re-establishing crossings. Raylink has costed the active protection requirements of each of the 15 crossings at \$350 000 apiece, while L&NER considers that it could complete the works for \$13 000 apiece using technology deployed elsewhere in the tourist railway industry.

The cost estimates may not fully include some additional infrastructure needed to accommodate a railway tourism business, such as the refurbishment of platforms and buildings such as shelters and toilets at Turners Marsh, Lilydale and Wyena, and the restoration of the Scottsdale station. They also do not include car parking facilities. In addition, L&NER would have a range of other establishment costs, including an information management system and ensuring its rolling stock meets all safety and other operational requirements.

Treasury is not in a position to comment on the robustness of the different cost estimates. The National Rail Safety Regulator will assess whether the L&NER's proposed approach to a range of issues is consistent with the relevant safety standards, such as for crossings, and this may have a significant bearing on the initial capital costs.

Treasury has been advised that, to date, there has been very limited communication between L&NER and the National Rail Safety Regulator. This exposes the risk that, notwithstanding the technical advice and support L&NER has received to date, there may be a gap between the safety standards that L&NER has been assuming, and the requirements that the National Rail Safety Regulator may impose. This is assessed as a significant financial risk to the project.

It is also not possible to assess the extent to which volunteer labour, or labour under the Work for the Dole program would be available for the range of tasks required.

L&NER has stated that it has the capacity to fund and run the railway without assistance from government. L&NER has provided a list of pledges totalling \$424 300. It is unclear how much of the pledges are for financial assistance and how much are for in-kind support, such as for consulting services, loaning equipment and providing skilled work. L&NER has not declared what level of cash reserves it holds.

In order to be able to work on the line to rehabilitate it and to then operate tourism railway services, L&NER is required to gain accreditation from the National Rail Safety Regulator. L&NER has indicated that its safety management system will be prepared by someone who has significant experience in the area and expects to achieve accreditation to work on the line within one month of submitting its safety management system and other accreditation documentation.

Whether this is a reasonable expectation will depend, in part, on the quality of L&NER's proposed safety management system. However, Treasury's discussions with the Office of the National Rail Safety Regulator have indicated that the accreditation process can often be lengthy, with applicants often being required to provide additional information.

Once accredited by the National Rail Safety Regulator, the safety risks for the tourist railway would likely be no different to those of other comparable accredited operators.

L&NER has obtained a quotation for public liability insurance coverage that it has been advised is sufficient, with premiums that it has assessed as affordable. Infrastructure Tasmania has recently been involved in assisting a separate tourist railway proponent with a quotation for public liability insurance for a different non-operational section of rail line in Tasmania. The proponent's proposed operation has been assessed and the recommended coverage is at a level ten times the level to which the L&NER quotation applies.

While L&NER has formed its view as to the necessary level of cover for its proposed operations, the National Rail Safety Regulator may consider that this is an insufficient level of coverage. This represents a further significant financial risk to the project costs.

Tourist railways have the capacity to generate economic and employment benefits, both directly and indirectly, including in the accommodation industry and the hospitality sector more generally, consistent with the experience of other tourist railways. L&NER has several estimates of patronage, with one estimate of 22 500 passengers by year four of operation and growth from that point of around 9 per cent per annum to almost 60 000 passengers after 20 years.

While the project is expected to benefit from the increased number of visitors to the State, and expenditure by visitors, the demand projections in L&NER's Business and Strategic Plan are optimistic in Treasury's assessment.

In its report to Infrastructure Tasmania, Linqage International points out that the tourist and heritage rail sector is a capital and labour intensive industry with high establishment costs and high fixed maintenance costs. The report assesses that L&NER would be able to operate sustainably in surplus without the need for any recurrent support from external sources, including the State Government, assuming it can secure sufficient membership subscriptions.

L&NER does not appear to have a high level of reserves, or balance sheet strength, for a project of this magnitude. It would therefore need to build surpluses to fund the different stages and allow for sufficient reserves to fund capital costs. It is also noted that the business model relies

entirely on volunteer labour to operate the railway except for a General Manager whose salary would be donated by a local businessman.

Recent experience in Tasmania is that tourist and heritage railways can struggle to continue without public funding. The West Coast Wilderness Railway, for example, received annual support from the State Government of \$4.5 million for the past three years. Similarly, the 2018-19 Budget includes a commitment of \$25 000 to the Derwent Valley Railway to support planning work to enable rail reconstruction. There is a significant risk that L&NER will face a funding shortfall and may seek public funding to assist in its establishment costs, or its operations and maintenance costs. This may depend, in large part, on the requirements imposed by the National Rail Safety Regulator.