

Crossrail: What It Will Cost Us

Written August 2004, by Roger Lawson

The Crossrail project has recently been given the go ahead in principle by the Government although it is not yet clear as to where the funding will come from. The first stage provides a line under London running from Ebbsfleet in Kent, to Heathrow in the west. Other branches would run up to Shenfield in Essex and to Kingston in Surrey.

Many of our readers may not see much benefit from this, but all Londoners will have to pay for it if Ken Livingstone gets his way (he is one of the prime supporters of the project). It would likely be the largest ever infrastructure project in the UK at a cost of over £10 billion (give or take a few billion as discussed later). To give you some idea of the scale of this project, some £154 million was spent just on the feasibility study!

The result of the feasibility study was a plan that has recently been the subject of a review (the "Crossrail Review" available from the Department of Transport - see their web site at <http://www.dft.gov.uk>). This says "the CLRL's proposals (from Cross London Rail Link Ltd) would have a whole-life cost in excess of £11,200 million NPV." where NPV is Net Present Value.

You may be thinking that this indicates the cost of the project and that revenue from fares will help pay for it. But no, this is the cost after discounting back the future fare revenues and other benefits to the "current value". In fact it's actually very difficult to determine the true cost - the brochure from CLRL entitled "Crossrail - The Next Step" (see <http://www.crossrail.co.uk>) doesn't even mention the cost, and the review document mainly refers to a figure of "approximately £10,000 million excluding financing costs" (*Editor: And only a financial ignoramus would exclude such costs*). However it does elsewhere mention a figure of £15 billion "required over the period of construction".

The review document actually suggests the real "Net Present Value" may be somewhat less at £8 billion after taking account of contributions from the business community of over £2 billion and other adjustments but that is still an enormous cost. In other words, instead of showing a positive return on the investment, it will show a gigantic loss. To give you some idea of the scale, assuming Londoners are primarily going to pay for it one way or another (through higher public transport fares, as is one suggestion, or through taxes), that means that it will cost London households as much as £3,000 each after taking into account the benefits they gain - so the real cash cost is even higher.

Of course it also ignores the risk that such large projects typically overrun on costs, and that fare revenue is often less than forecast, so the chance of the budget being adhered to is also fairly remote.

One reason why it loses money apparently is because only about a third of trips on the new line would represent new public transport trips - the rest are simply diversions from other rail or bus journeys so there is little financial advantage. But the costs above take into account the time saved by passengers on more convenient trips.

(Editor: Only Ken Livingstone could have sold this financially disastrous project to the government. Anyone who is familiar with basic economics and capital project evaluation would immediately see that it is fundamentally financially unsound. One can understand exactly why previous governments over the last 30 years have consistently shelved such a project).

So as to give you the arguments put by the proponents of the project, here are the claimed main benefits:

- Time savings experienced by users of Crossrail.
- Crowding relief for people on other services.
- Increased public transport revenue and reduction in highway use by shift to public transport.

Wider benefits included urban regeneration, support for government transport policies, and the creation of 47,500 new jobs in central London (but of course they haven't taken into account the higher cost of housing resulting from those same people looking for accommodation in the London area, and other negative effects).

(Editor: In summary, another bit of empire building by Ken Livingstone and more ignoring of the true financial cost of his policies.)