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Cost rail projects properly to bring down the bills

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It costs too much to build train lines in NSW. The question is why and what can be done about it. First up, a disclaimer: I don't know anything about building train lines. I've been the transport reporter at the *Herald* for a bit over six months.

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That is enough time to learn my S-sets from my A-sets (different types of carriage). It doesn't mean I can cost cut-and-cover through sandstone, or rate viaduct prices against cuttings, or any of the things you'd want to be able to do to make a meaningful contribution to this whole issue.

But that's never stopped anyone in newspapers before. And the thing about this job is that you talk to people. The striking thing I've found is that when you talk to people on this issue nearly everyone agrees: it costs too much to build train lines in NSW.

Part of the reason everyone agrees is that the recent record on rail construction is so sorry. The major addition to the rail network completed in the 16 years of the previous government, the Epping to Chatswood line, came in at \$2.3 billion in 2009.

When it was first promised, in 1998, the line was to be double the length, from Chatswood to Parramatta through Epping, and cost \$1.4 billion. This is the type of problem we're dealing with.

Another part of the reason everyone agrees is that a lot of people have a vested interest in an affirmative answer.

If your perspective is that there should be more train lines so fewer people use cars and clog up the roads and smog up the skies, and so that people without cars can criss-cross the city to get to the places they need to go, or spend less time on buses slogging through traffic - if you're one of those types - then you might think rail construction should be cheaper so more of it can happen.

You also might think rail construction should be cheaper if you have a vested interest in pushing up the cost. (Que? Well, bankers stitching up a rail deal, and the construction companies and consultants jostling to be involved in one, all want to be paid more.)

But they also want to do some work. And if costs keep inflating to the extent governments defer projects or cut them back, then the snouts at the trough get hungry.

One perspective on the issue, which will be looked at in the next few months by a NSW parliamentary inquiry, is advanced by the advocacy group EcoTransit. Its view is that the capacity for the NSW bureaucracy to manage major projects has so degraded in the past few decades it has become captive to consultancies talking their own book.

The other leg to this view is that the emasculation of an intelligent bureaucracy has left it vulnerable to institutional blocking by the likes of state Treasury.

Treasury will drive up the anticipated cost of a rail project to prevent it, or others, being built, is the theory. (And even if you don't agree with it, it is not hard to understand Treasury's thinking here: it costs \$10 to transport someone on CityRail and their ticket will probably cover less than half of that. Let's not expand the network too much.)

Another element to the problem is that NSW is not alone. The Oxford professor Bent Flyvbjerg has documented the "optimism bias" that pervades major infrastructure projects the world over.

Flyvbjerg cites example after example of major road or rail projects where the promoters of projects overstate benefits and underestimate costs, to public detriment down the track.

In a 2009 paper in the *Oxford Review of Economic Policy*, he notes the perverse outcome that "the projects that are artificially made to look best in business cases are the projects that generate the highest cost overruns and benefit shortfalls in reality, resulting in a significant trend for 'survival of the unfittest' for infrastructure projects".

Recent Sydney history, featuring a little-used cross-city road tunnel but no train line to the north-west, and during which \$500 million was spent planning then cancelling a metro to Rozelle, might be relevant here.

So what's to be done about it? Flyvbjerg's solution is twofold: develop better patronage models and put less trust in the perspective of spruikers. It is basically an appeal for more competence on the part of government.

This appeal is pretty much common among all perspectives on the issue. Even experienced transport professionals who don't sign up to the EcoTransit line acknowledge that NSW has planned and costed transport projects poorly in the past.

And this creates a circular effect that drives up project costs in the future. Not trusting itself to deliver to budget, the government inflates estimates 30 to 40 per cent, just in case something goes wrong. This contingency is then built into the price of the project and never recovered.

In his submission to the NSW inquiry into rail costings, the bureaucrat who managed to build the Perth to Mandurah rail line with a cost escalation rate of 17 per cent between 2002 and 2008, against a Perth building cost rise of 53 per cent, spoke against these contingencies. "The demand for cost estimates that will not be exceeded can only be done in one way - by adding enough 'fat' to ensure the outcome," Peter Martinovic wrote. "This comes perhaps at great cost not only for a particular project, but also sets precedents for future projects, and perhaps prevents projects even being considered."

To adopt Martinovic's recommendation, governments would need to be bold enough to strip the fat out of costings and risk a little blowout. But if it was to try that trick the NSW government would need to establish a better record for picking the right projects and a tougher reputation for keeping costs down.

Which all leads to the one conclusion, really: fix it, Gladys!

Ross Gittins is on leave.

This story was found at: <http://www.smh.com.au/business/cost-rail-projects-properly-to-bring-down-the-bills-20111028-1mnzc.html>