

Contractors cheat taxpayer with budget overruns

Jonathon Carr-Brown

BUILDING contractors routinely deceive governments about the true cost of big infrastructure projects in a bid to win contracts that then run millions of pounds over budget, according to a new study.

The international study, which is published tomorrow in the *Journal of the American Planning Association*, will make uncomfortable reading for governments worldwide.

British ministers will be particularly concerned as projects in the United Kingdom were found to be less well-managed than the average, with an estimated £8.5 billion clocked up in overspending on 135 projects in the past 30 years.

Examples cited in the report include the Humber bridge, which was 175% over budget and cost £449m more than it should have done, the Channel tunnel, which came in 80% over budget at £3.9 billion, and the Tyne Metro system, which was 57% over budget at £430m.

Based on a survey of 500 big public works projects in 20 countries, the report shows strong evidence that a small group of building contractors is deliberately underestimating costs to win business.

Once contracts have been signed, costs begin to soar, typically leaving taxpayers to pick up bills between 20% and 45% over budget.

The study, which was carried out by Professor Bent Flyvbjerg

of Aalborg University in Denmark, rejects contractors' claims that budgets are skewed by unforeseen circumstances.

It produces clear statistical evidence to show that contractors' underestimates follow a fixed pattern. It also shows that there has been little or no improvement over time — that would be expected if the overruns were accidental.

"What these statistics appear to show is that nobody is learning from experience," said Flyvbjerg. "And I don't think it can be ignorance because we are dealing with a very small group of contractors."

"That means the promoters of these projects are either incredibly stupid or they are out to deceive the investors and politicians. The study comes down clearly on the side that this is deception."

As part of the study, Flyvbjerg and his team looked at 135 projects completed over the past 30 years in Britain. They discovered that contractors underestimated costs in 96% of cases — slightly higher than the overall international average.

"Psychologists would call it appraisal optimism; the public would call it lying," said Flyvbjerg.

Sir Alastair Morton, who oversaw the building of the Channel tunnel, broadly agreed with the Danish team's findings: "The response of contractors is to put together a very low bid which they can see how they can escalate later. The usual way is to get variations in the contract after it is signed."