



## Some reasons to be lighter on the tunnel

By Michael Duffy

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I LOVE the Cross City Tunnel. I use it whenever I can during the day because, although the toll is \$3.56, it saves you money. Consider the best case, where it might reduce a journey by 15 minutes. Is your time worth \$3.56 a quarter-hour? This works out to \$14.24 an hour or about \$30,000 a year, assuming you work 40 hours a week. In this case the tunnel has to be excellent value.

In what we might call the worst case, where the saving was only 7½ minutes, a driver would have to earn more than \$60,000 a year for a trip through the the tunnel to make financial sense. Many people in the eastern suburbs and the inner west do earn that much. And it's not just about money: using the tunnel reduces stress, pollution and the use of petrol.

These calculations don't apply to people on a fixed salary who use the tunnel only to drive to and from work. For them, weekly use represents an extra cost of \$35.60. Is that too much? Presumably many drivers think so at the moment, but this is a matter of perception that could well change. It's not really all that much money for many people in the eastern suburbs - about half the cost of filling up an average petrol tank. It will be interesting to see just how unattractive the Government has to make the alternative routes to get more people to use the tunnel. I hope a sociologist is taking notes.

Some critics say the Government should have built the tunnel itself. After all, government can borrow money more cheaply than the private sector. But although it is better at borrowing money, it is much worse at spending it. Government projects are more likely to go over budget and over time, for several reasons. Public sector managers tend to be less effective people than those in the private sector (because they're paid less) and are hampered by more regulations and special interest groups, particularly the unions.

This is why it makes financial sense for government to give a private company a big fee to build something. Not enough credit has been given in this case to the very important fact that the tunnel was completely in an efficient and timely manner.

This is by no means common, as is shown in the book *Megaprojects and Risk* by three Scandinavian academics, Bent Flyvbjerg, Nils Bruzelius and Werner Rothengatter (Cambridge, 2003). They say construction cost overruns on big transport infrastructure projects are widespread: "The difference between actual and estimated investment cost is often 50 to 100 per cent, and for many projects cost overruns end up threatening project viability." Their book includes a list of transport and other "spectacular projects with spectacular cost overruns". At position No. 2, just after the Suez Canal, is the Sydney Opera House, at 1400 per cent. You might say we've come a long way since then.

One area where the Cross City Tunnel has much in common with overseas projects is in the way it got its demand calculation so wrong. Where alternative routes exist, such estimates are notoriously difficult to get right. Here are some figures for actual traffic in the opening year as a percentage of the original estimates: Denver International Airport 55; Paris Nord fast train line 25; and the Channel Tunnel 18. Britain's Department of Transport says it's "reasonably satisfied" if traffic on new infrastructure varies no more than 20 per cent from the estimates. In one study it found that traffic on 19 out of 41 new road schemes varied by a lot more than that - up to 105 per cent. In another study, Britain's National Audit Office found 41 road projects where traffic was so much less than expected that lower design standards should have been used - while in 27 other projects, traffic was so much greater than expected that higher standards should have applied. The general message is that

estimating demand for new infrastructure is not a precise science. The mistakes made by the Cross City Tunnel (and the airport rail link) planners are regrettable but not unusual.

Public-private partnerships involve the calculation and spread of risk, both of them tricky tasks. Because contracts are not published, we are naturally suspicious about whether government is handling this correctly. The Auditor-General, Bob Sendt, has called for all contracts in these cases to be made public. This is essential both to educate us in what is still a relatively new process and give us confidence that government is acting wisely.

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