



Issues to keep in mind for the next Election Night in Canada!

Cost overruns the rule, not the exception

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VICTORIA - British Columbians are no strangers to cost overruns on transportation megaprojects. Some, like the Coquihalla highway and the fast ferries, have even generated full-blown political scandals.

There's a mounting concern that the province may be headed for yet another busted budget on the proposed RAV transit line, to link Richmond, the Airport and Vancouver. Proponents insist it will cost no more than \$1.7 billion. But for several reasons -- some of them highlighted in a confidential analysis by the federal government -- the tab could soar past \$2 billion before construction is completed.

Against that backdrop, along comes an international study to demonstrate that the B.C. experience with cost overruns is not an isolated instance.

The study was drawn to my attention by one of the authors: Bent Flyvbjerg, research director in the planning school at Aalborg University in Denmark.

He and two colleagues conducted a globe-spanning survey of budgeting on public sector transportation.

They reviewed before-and-after cost estimates on 258 projects -- rail, transit, bridges, tunnels and highways -- in 20 countries on five continents over a span of 70 years. Their basic method was to compare the cost estimate at the time the project was approved with the after-the-fact tally.

Project boosters might dispute that approach. They'd argue project budgets can increase over time owing to changes in

scope by the politicians and unforeseen costs in construction.

But the authors argue their method is entirely relevant as a public policy tool: "It is exactly the cost estimate at the time of making the decision to build that is of primary importance."

For that is when the project is being judged on its merits and against other transportation options. That is when public dollars are being committed, in many instances irrevocably.

"Legislators and citizens are entitled to know the uncertainty of budgets," the authors say. "The misrepresentation of costs is likely to lead to the misallocation of scarce resources, which in turn will produce losers, be they taxpayers or private investors."

The findings, published last year by the Journal of the American Planning Association and this year by Cambridge University Press ("Megaprojects and Risk") do not instill confidence in the financial forecasts of project promoters.

The authors discovered that budget overruns are a "global phenomenon." They happen everywhere. Almost never are projects completed on budget or -- it is to laugh -- with money left over in the bank.

"Underestimation of costs at the time of the decision to build is the rule rather than the exception for transportation infrastructure projects," they found. "Frequent and subsequent cost escalation is the result."

Some details of what the authors of the study characterize as "a striking and highly interesting bias":

Nine of 10 projects went over budget. The likelihood of an overrun on any given project was 86 per cent. The average overrun was 28 per cent.

But the average was higher for some types of projects. Rail lines, measured as a group, yielded a 45-per-cent overrun. Fixed links (bridges and tunnels) went 34 per cent over on average. A further breakdown of the data suggests that tunnels were more susceptible to fiscal surprises than bridges.

All of which should heighten anxieties about the RAV project, combining, as it does, both a rail line and extensive tunnelling.

If the RAV were to fall within the range of overruns suggested by the study -- 28 to 45 per cent -- then it could end up costing between \$2.2 billion and \$2.5 billion.

But the Danish academics were not content to merely compile the overwhelming evidence of cost overruns on public sector

transportation projects. They also ventured to speculate on the reason why, mustering data and logic to produce the most plausible explanation, albeit one that is highly controversial.

The provocative nature of the exercise is posed by the title of their article in the planning journal. "Under-estimating Costs in Public Works Projects: Error or Lie?"

The conclusion is not the least flattering to the planners, promoters and politicians who routinely ask the public to trust their cost estimates for transportation projects.

In a subsequent column, I'll have more to say about the public policy implications of this remarkable study.

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