

Rail blowout

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But the Victorian Department of Treasury and Finance and the Department of Transport now predict the cost of the rail line, which is supposed to ease pressure on Melbourne's metropolitan rail commuter network and boost services to Ballarat, Bendigo and Geelong, has risen by between \$700 million and \$1 billion.

The cost blowout, combined with the federal government's repeated stalling on the provision of its funds, has prompted the state government to reconsider the project's viability.

It is understood the cost increase obliterates the project's \$800 million contingency allowance before any major contracts have been let, and opens up the state to substantial financial risks if costs continue to mount because the federal government's contribution is capped.

The Victorian coalition also campaigned heavily on not taking on any additional debt, meaning funds would have to come straight from reserves.

The state government is believed to be weighing up four options.

One would be to pare back the project's scope to bring down the cost, although engineering sources suggested this would be difficult.

Changes could also be made to the timing of construction, with either the start date pushed back or the construction period stretched. Although, again, industry experts suggest that course could actually increase the cost.

It is understood that the delays in payments from the federal government have also damaged the state government's confidence that the money will be delivered and made it more hesitant in agreeing to slow the delivery program.

Well-placed sources have confirmed the state government is seriously considering walking away from the project.

But a spokesman for Mr Mulder yesterday would say only that the minister had discussed the project with Mr Albanese at yesterday's meeting.

The government was focused on getting the "best deal for Victoria" and negotiations were continuing, he said.

Mr Albanese's office declined to comment.

+ It is understood that estimated

Rail blowout sparks row over projects

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Mathew Dunckley

Federal and state government co-operation on the funding of big infrastructure projects has suffered a significant setback as a cost blowout of up to \$1 billion threatens to scuttle a proposal to build a major new rail line in Victoria.

The Australian Financial Review has learned that the \$4.3 billion Regional Rail Link in Melbourne is under threat after the massive blowout.

The development came as federal Infrastructure Minister Anthony Albanese met Victoria's Public Transport Minister Terry Mulder yesterday to discuss funding for the 50-kilometre rail project.

The commonwealth has pledged \$3.2 billion towards the Regional Rail Link, which will provide dedicated tracks for country rail services into Melbourne in the largest single allocation out of the Building Australia Fund. The former Victorian Labor government committed \$1.1 billion of state money.

But the federal government now wants to hold back \$500 million until 2015-16 as part of budget savings it needs to pay for rebuilding after the summer floods.

Major projects have been pulled in Queensland and South Australia as the government tries to save \$1 billion on infrastructure projects to fund reconstruction work.

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All aboard in 2009 ... then PM Kevin Rudd and then premier John Brumby at Southern Cross Station.

Photo: JASON SOUTH

costs have been scaled upwards on several parts of the project, including signalling and land acquisition. The project has been broken into seven segments, which are at varying stages of contracting.

The vast majority of the project is yet to be contracted, lessening the chance the government will have to pay compensation to companies involved if it did decide to walk away.

The NSW government was last year forced to pay \$411 million in compensation to bidders when it scrapped the Metro project in Sydney.

The most advanced section in the tendering process for Regional Rail Link is a 25.5 kilometre section (known as part E) from Deer Park to West Werribee.

On this section there are three short-listed joint ventures: Abigroup Thiess; Fulton Hogan, John Holland and Coleman Rail; and Leighton Boulderstone.

Expressions of interest for the signalling package closed late last year, at the same time as requests for proposals for the 7.5 kilometre

section from Footscray to Sunshine.

A Leighton Holdings spokesman declined to comment on the prospect of compensation.

"We are looking forward to the project proceeding and trust that will still occur," he said.

Public Transport Users Association president Daniel Bowen said there would be an opportunity cost associated with the government sub-

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stantially boosting its contribution to the project.

Mr Bowen said it was "baffling" how the project's cost could increase so markedly, given large sections of it would be built on empty fields.

In an assessment backed by a number of industry insiders, Mr Bowen questioned the expertise within the Department of Transport to run such a large rail procurement exercise.

Several observers also criticised the former government's decision not to establish an independent authority to manage the project, as was done for the CityLink and East-link tollways.

"We may be paying the price for them not setting up a free-standing authority ... that is unusual for Victoria," one well-placed observer said.

The federal government has targeted infrastructure projects around the country as it sought \$4 billion in budget savings to put towards spending on flood reconstruction.

Aside from the delaying of funds for the Regional Rail Link, the federal government has also pulled \$56 million that had been set aside for an extension of Adelaide's O-bahn express busway.

It has also postponed spending on other projects.

That list of projects includes \$325 million worth of road upgrades slated for Queensland.

The federal government has estimated that the damage bill from the recent severe floods will be about \$5.6 billion.