Cost Escalation in Major Infrastructure Projects: Lessons from Ireland

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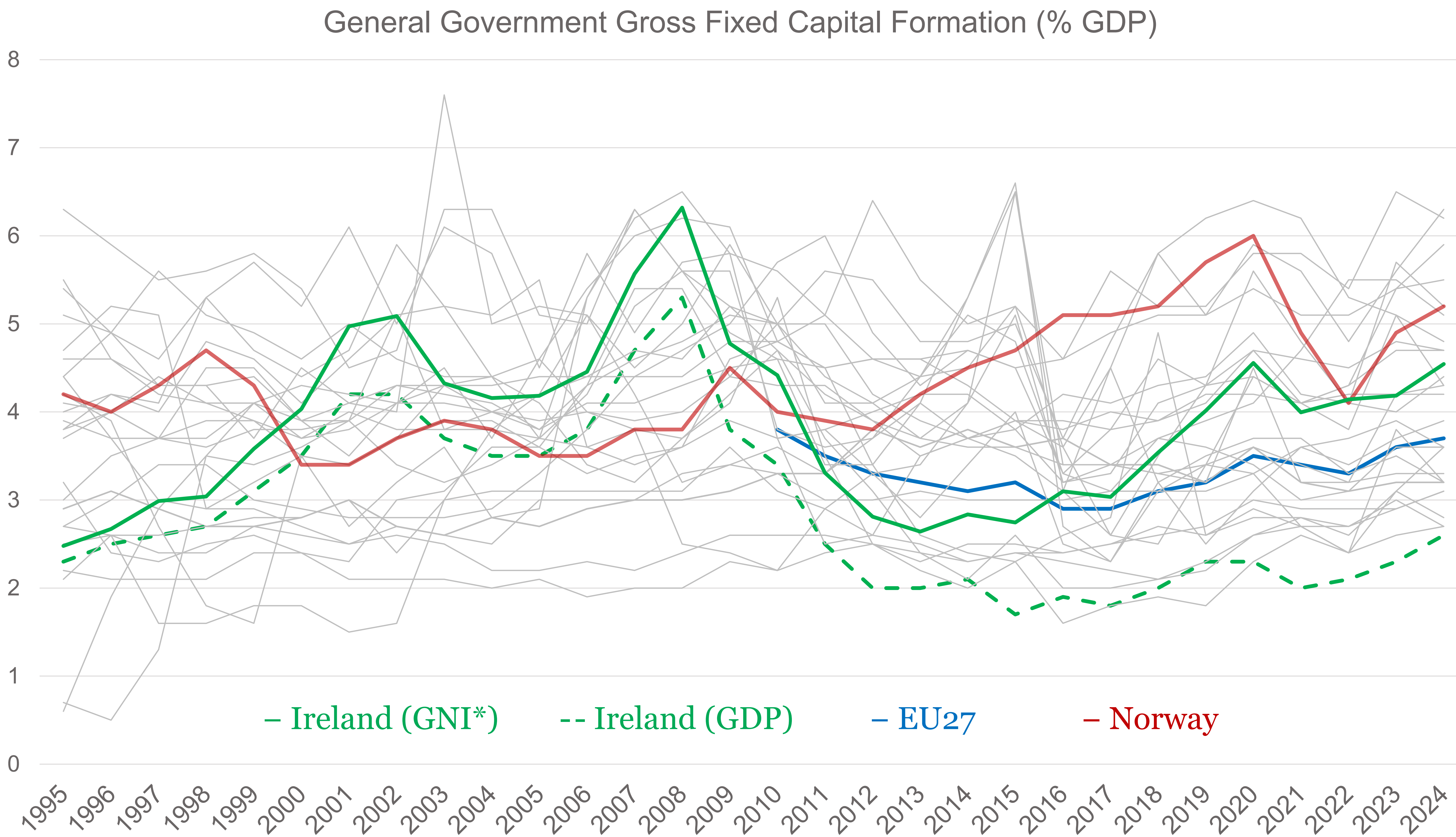
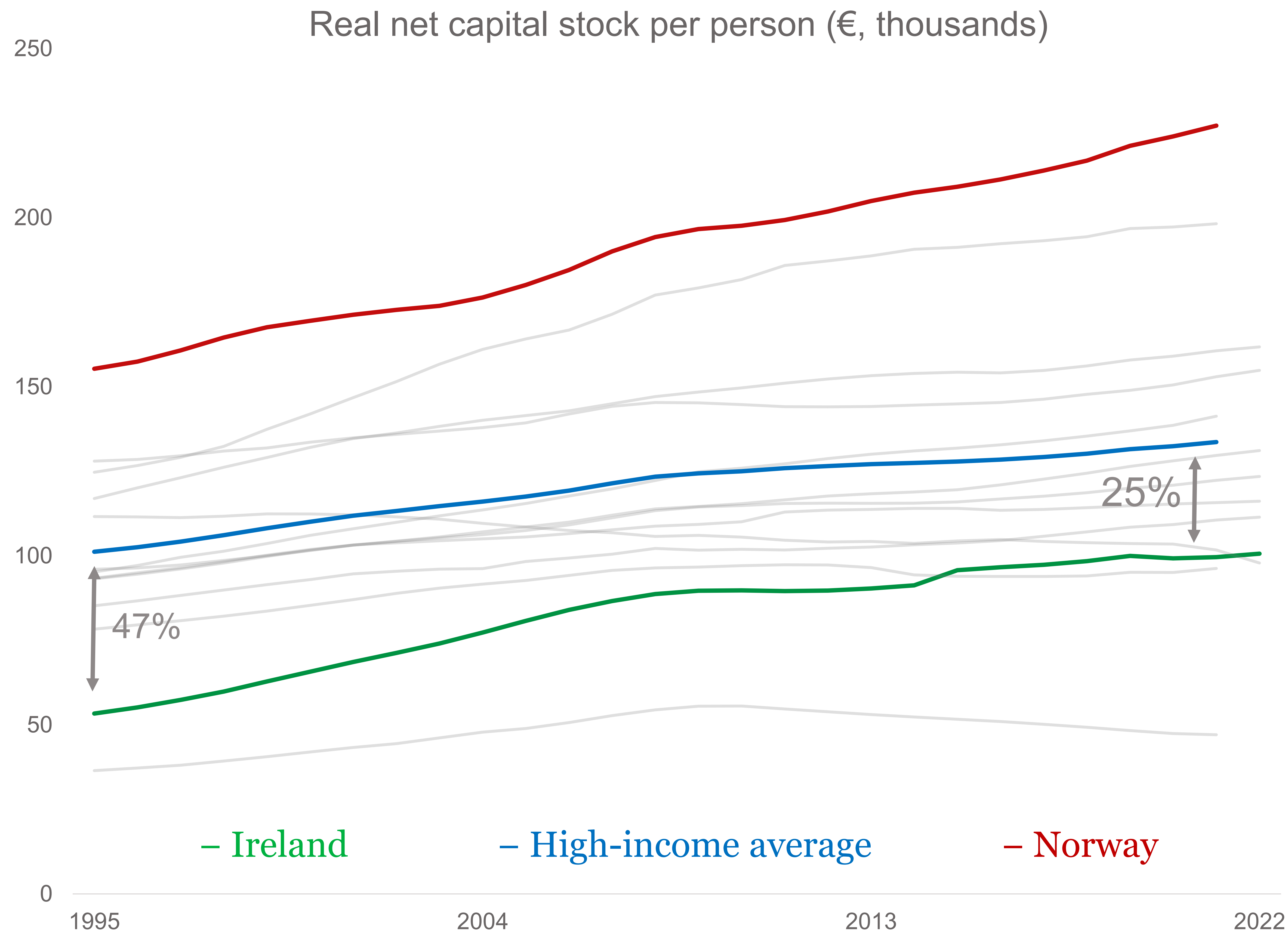
Irish public investment on the rise…



Source: Eurostat; Central Statistics Office

But coming from a low base…



Source: Conroy and Timoney (2024). High income average = BE, DK, DE, EL, FR, IT, LU, NL, AT, FI, SE, NO

But coming from a low base…

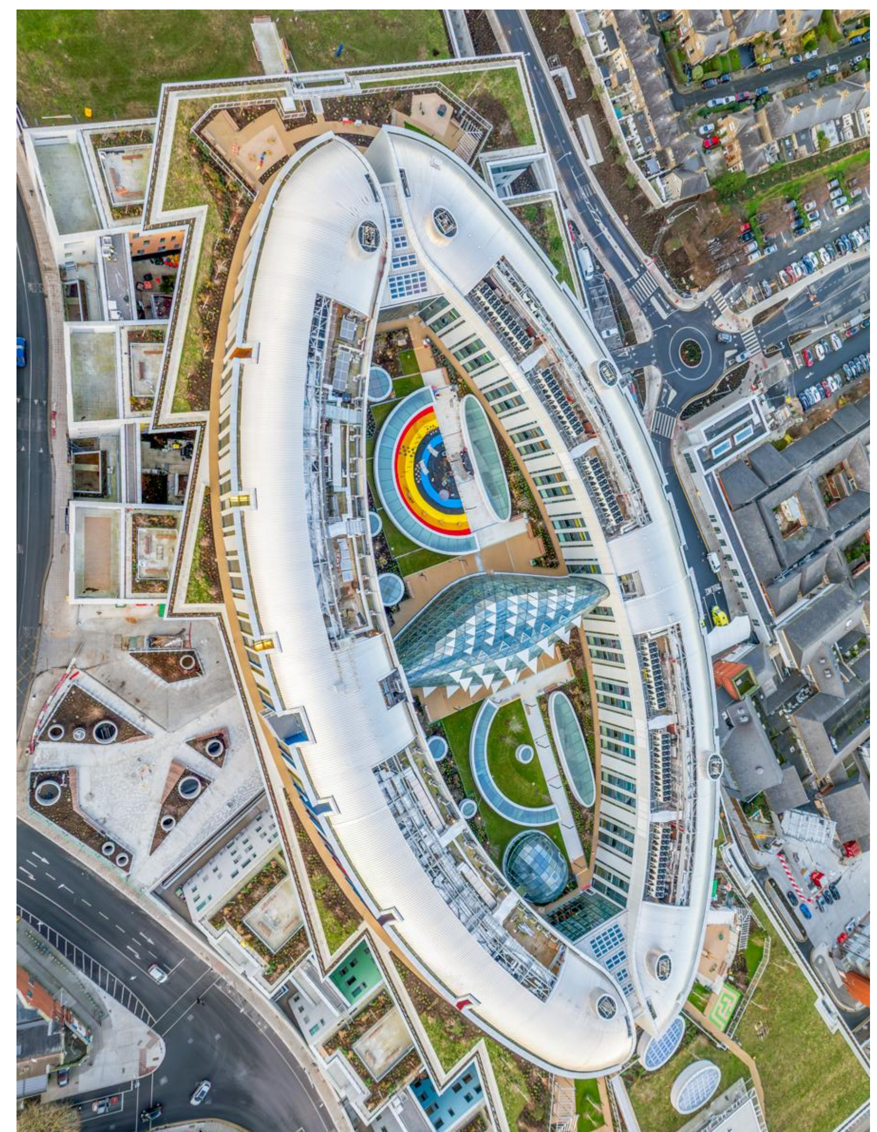
- IMF 2025 report on Ireland also shows Ireland faces a 32% physical infrastructure gap relative to frontier and is ranked 17th in OECD for infrastructure

- With ongoing ramp up in investment, ensuring that Exchequer funds are spent efficiently and value for money is achieved is critical

- Unfortunately, Ireland's track record to date on large infrastructure projects isn't great

- Ireland also currently 'suffering' from lack of spare capacity in the economy to build infrastructure

History of cost overruns on major Irish projects



So what happened?

- Early **motorway** projects: fixed price contracts not used, construction inflation significantly underestimated, design creep, weak in-house expertise

- First phase of **Luas** project: project suffered from a lot of political interference and design changes which caused significant delays and cost escalation

- **Dublin Port Tunnel**: increased cost due to contract variations, time delays, construction inflation and underestimated cost of land acquisition

- **National Broadband Plan**: once-off bespoke project pushed for and procured by same Department, issues with CBA, only one bidder, overly complex and rigid contract design, lack of in-house experience

- **National Children's Hospital**: project plagued by poor planning, issues with CBA and estimation of risks, poor control of costs, and governance failures

Nothing new here?

- **Flyvberg 101!**
  - Unrealistic forecasts - cost underestimation and benefit overestimation
  - Poor spending controls - governance and oversight
  - Political interference and changes to project scope/design
  - Transparency and accountability

- Worldwide, CBAs for major projects systematically biased due to over-optimism
  - Underpinned by a range of behavioural biases such as overconfidence bias, the planning fallacy and strategic misrepresentation

- Problem is generally not cost *overruns* but cost *underestimation* at the outset

Ireland’s planning and legal issues

- In recent years, Ireland experienced massive backlogs on applications for planning permission - more an issue of institutional capacity then laws being too strict
- Lengthy judicial reviews of planning decisions also a persistent feature of Ireland’s largest projects
- Draghi report highlighted how long Ireland’s permitting process takes for renewable energy projects
  - Longest in EU for onshore wind (9 years); 3 to 4 years for PV
- Government enacted *Critical Infrastructure Bill* in July 2026 which removes ability to mount legal challenges against designated projects on climate grounds

Upcoming NDP investment plans

- Updated National Development Plan (Jul 2025) envisages investment of €275bn out to 2035, with €102bn allocated for 2026-2030 alone
  - Over 80 'major' projects within NDP with projected costs >€100 million (out of >500 planned projects)
  - Dublin's planned Metrolink project now estimated to cost between €15bn and €19bn (previously estimated to cost between €7-12bn!)

- **How can we avoid cost overruns on upcoming projects?**

- In 2021, government established an independent external assurance process (EAP) to review projects >€100m (increased to >€200m in 2023)
  - Essentially, a (poor!) cousin of Norway's KS1/KS2 with external review at preliminary business case stage
  - Major Projects Advisory Group (MPAG) also established in December 2021 to support project scrutiny and challenge role. MPAG review project and EAP review at preliminary business case stage

What else can we do?

- Given relatively small size of Irish economy, a dedicated infrastructure procurement agency staffed with the necessary expertise would help in several ways:

- Separation of sponsor from evaluator
- More competitive tension through bundling and aggregation
- Consistent enforced design-maturity gates
- Deeper technical and commercial expertise & retention of institutional memory
- Standardised data and proper reference-class forecasting
- A more stable attractive counterparty for the construction sector
- Single point of accountability for delivery performance
- etc….

What else can we do?

- Creation of such an agency from scratch would be highly problematic given existing structures and likely 'turf wars' and would be a multi-year institution building exercise – not a quick fix!

- One solution would be to expand the role of Ireland's specialist PPP agency – the National Development Finance Agency (NDFA) - to take on more responsibility for Exchequer funded projects

- Expansion of NDFA's remit to procure other repeat-delivery schemes where smaller projects can be bundled together (e.g. health facilities, smaller transport projects) could help accelerate delivery of social infrastructure and mid-sized bundled builds
  - Already happening to a very limited extent (e.g. schools, social housing)

But… transparency, transparency, transparency

- Ireland performs very poorly in relation to providing information on project costs, publication of ex ante evaluations, post-project reviews, etc.

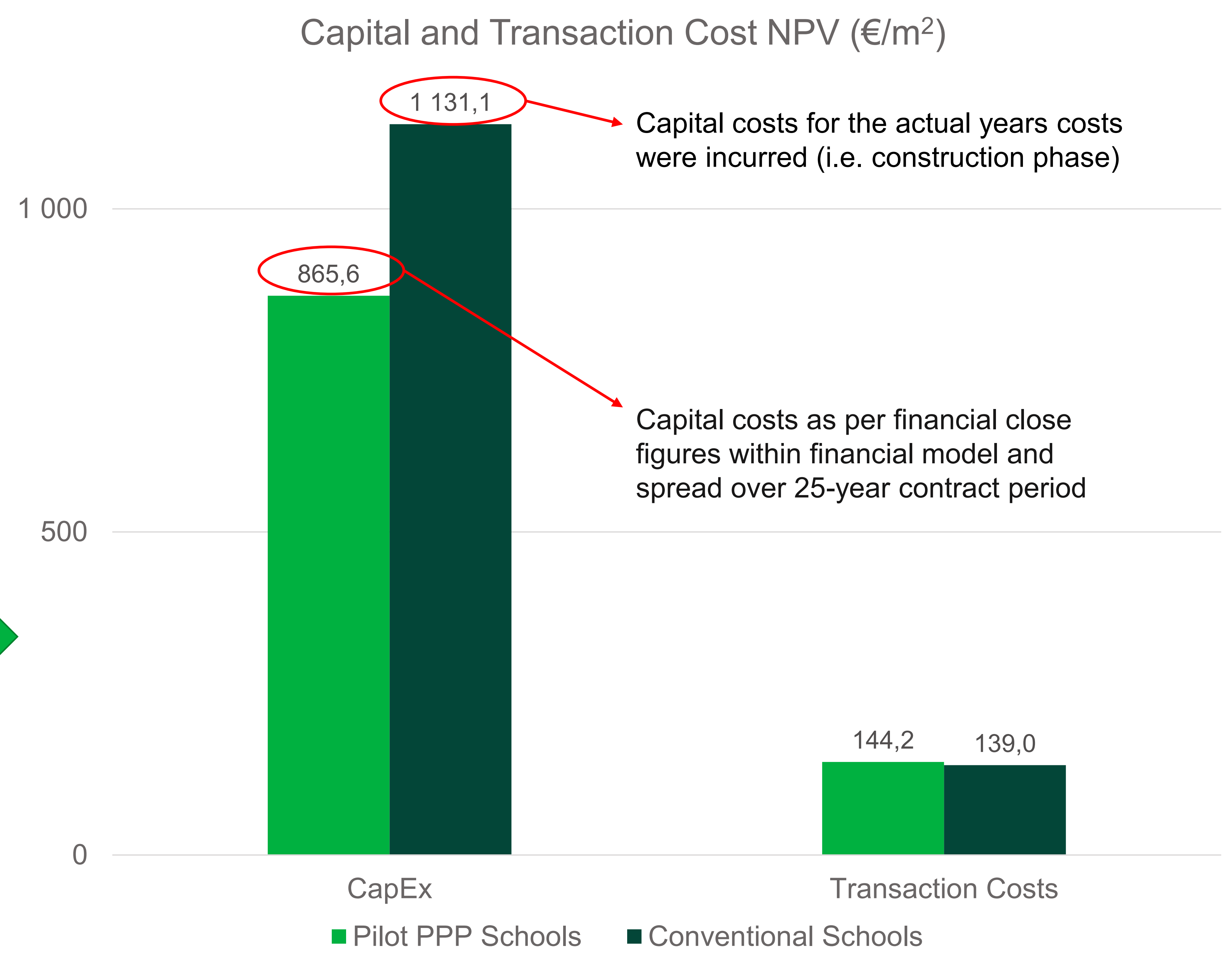
- FOI rules used by public bodies to prevent publication of detailed breakdowns of most project costs due to commercial sensitivity

- Any project below the level of 'flagship' is essentially invisible with no (published) central database and no consistent cost tracking information available

- In most flagship cases, cost information only emerges under sustained parliamentary committee pressure or after the fact via the C&AG

But… transparency, transparency, transparency

- Lack of detailed reviews of major public and PPP projects
- More data needs to be put in public domain to allow for greater independent scrutiny
- Less of this type of *ex ante* and *ex post* analysis!



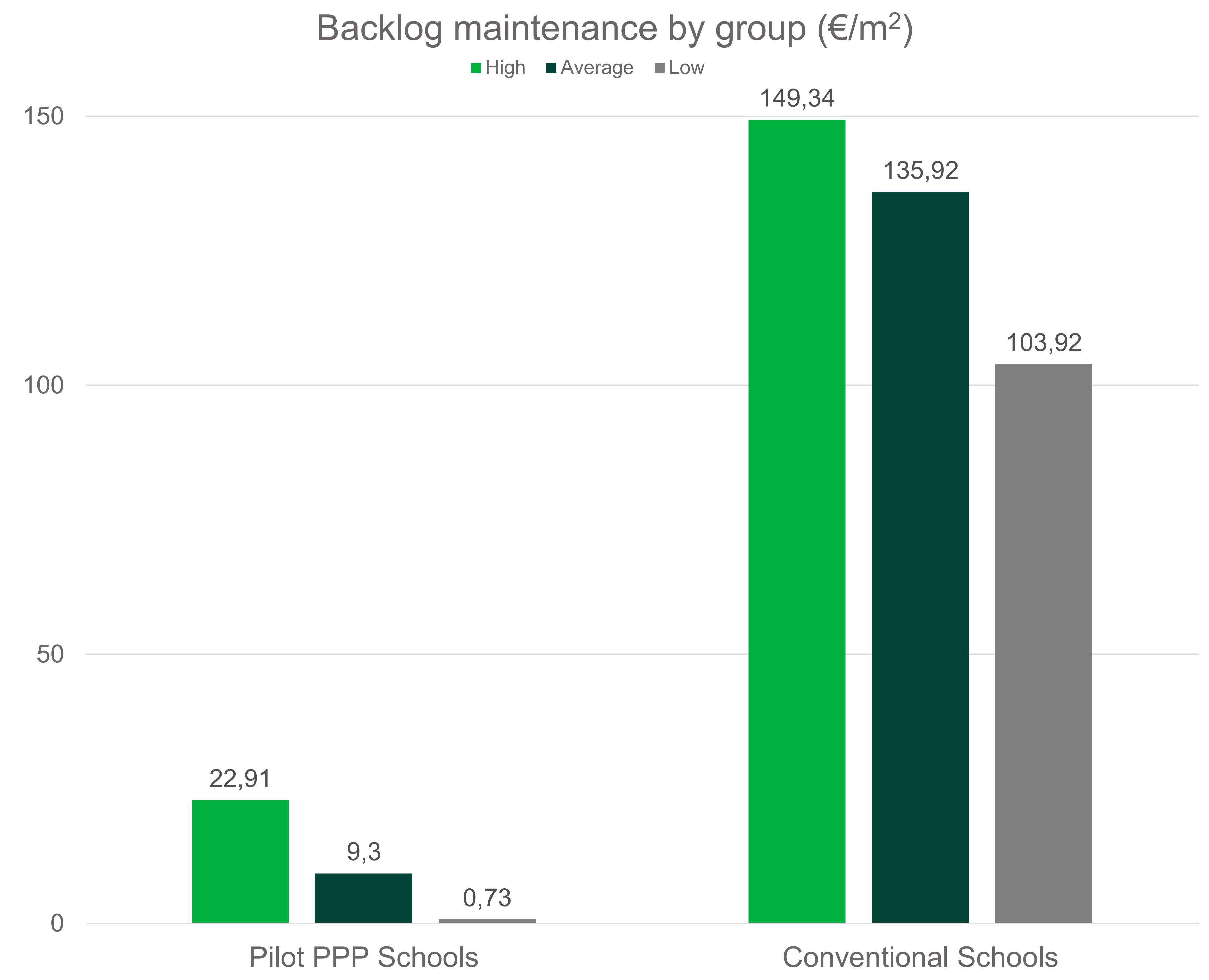
Source: DES (2021) *Review of the Pilot PPP Schools Bundle*

Project Hail Salience

- Fiscal illusion - when public does not know true cost of things, they underestimate it
- Providing clear information on cost of infrastructure and services would help public better evaluate opportunity cost of different government decisions
- For example, in March/April 2026, Irish government responded to nationwide protests on price of fuel by cutting excise duty on fuel, postponing carbon tax increases and providing support schemes for transport, farming and fishing sectors
- Total cost of package was €750 million (with further €400m from September to February 2027). €1.2bn total cost equivalent to (approximately):
  - 3,400 new social housing units
  - 50 new large school buildings
  - Cost of a light rail transport system in Galway

Other lessons to take on board

- The importance of budgeting for maintenance and lifecycle costs!
- Recent “mid-term” review of pilot PPP schools project revealed stark contrast between maintenance and quality of PPP schools versus traditionally procured schools
- Balance between building quickly and cheaply versus building higher quality (cost) assets that require less maintenance



Source: DES (2021) *Review of the Pilot PPP Schools Bundle*

Other lessons to take on board

- Building in lifecycle and O&M costs from the outset is costly. PPP projects include these elements for 25+ year period but traditionally procured projects do not

- Recent experience with cancellation of Social Housing PPP Bundle 3 (SHB3) is illustrative of the politics of what is '**value for money**' and what is '**affordable**'
  - SHB3 had passed all formal VfM tests but cancelled due to value for money concerns!
  - Main issue appears to have been lifecycle/O&M costs (and higher PPP financing costs)
  - Most of the sites within SHB3 now being procured via an Exchequer-funded design build bundle procured by NDFA (i.e. no lifecycle, O&M, private finance)

- However, there was no similar scrutiny of cost breakdown for SHB1 and SHB2 even though both were also high cost when procured

Summary

- Ireland has a history of cost overruns on major infrastructure projects … but no different to many other countries?
- NDFA has developed significant expertise in procurement of major infrastructure projects - potential to further extend remit to procurement of other projects?
- More information on project costs should be put in public domain, and more resources should be given to bodies such as the C&AG to conduct detailed performance reviews of major projects
- More focus on lifecycle/maintenance costs which should be built into budget for traditionally procured projects

Takk!

Any questions or comments are most welcome!

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