



RIKSREVISIONEN

Summary:

The regional co – financing of Citybanan

RiR 2012:8

RiR 2012:8 The regional co-financing of Citybanan

Summary

The Swedish National Audit Office has audited the regional co-financing of Citybanan. This co-financing is the result of a negotiation between the state and a number of regional parties in Mälardalen and Östergötland. Our overall conclusion is that co-financing has not been an effective form of financing for Citybanan and that it has not been sufficiently reasoned and transparent.

Background to the audit

The Swedish Government stopped the Citybanan project in autumn 2006 when it had been ascertained that costs had risen dramatically. The subsequent investigation proposed a continued extension of Citybanan and that the additional cost compared with a third track could be partly covered by means of regional co-financing. In January 2007, the Government mandated a governmental negotiator to conduct negotiations on regional co-financing of Citybanan involving regional and local actors in the Mälardalen region and Östergötland. Following a declaration of intent from the regional parties to contribute SEK 2 billion, the Government extended the negotiator's undertaking also to involve other infrastructure investments that may be considered to be associated with Citybanan. In December 2007, the negotiator proposed a draft agreement to the Government containing a regional commitment for co-financing of SEK 2 billion for Citybanan. The agreement also included a number of state commitments, primarily that nearby railway projects in Mälardalen would be implemented at a cost estimated by the Swedish National Audit Office of SEK 15.2 billion over and above the cost of Citybanan within a largely fixed time frame. In December 2008, the Government approved the agreement with some amendments, and mandated the Swedish National Rail Administration (now the Swedish Transport Administration) to manage the agreement on behalf of the state.

In connection with the negotiations on the co-financing of the Citybanan, legislation governing municipal financial reporting was amended in order to facilitate the co-financing of state infrastructure by municipalities. The amendment to the law enabled municipalities to report co-financing contributions made as an asset in their balance sheets.

In the audit's pre-study, the Swedish National Audit Office confirmed that the state commitment resulting from the agreement is a considerable one and that there are risks that the effectiveness of infrastructure planning might be affected. Furthermore, the cost described above of the other state commitments included in the agreement was not reported, either in the agreement or to the Riksdag ahead of the Government's decision to approve the agreement.

The purpose of the audit was to assess whether the regional co-financing of Citybanan has been effective with regard to the impact of co-financing on infrastructure projects concerned and overall infrastructure planning. The audit was based on the principles set out by the Riksdag defining how infrastructure projects are to be prioritised and on the basis that reasons must be given for alternative forms of financing. The Swedish National Audit Office has also checked whether co-financing has promoted good management of resources. Citybanan's regional co-

financing is also assessed on the basis of the general purposes of co-financing as announced by state authorities. The audit also includes base data used for the co-financing process, and the Swedish National Audit Office has also checked whether co-financing was reported transparently.

The results of the audit

The Swedish National Audit Office draws two overarching conclusions on the basis of its audit. The first overarching conclusion relates to problems of effectiveness caused by co-financing in national planning and in the implementation of the infrastructure projects included in the agreement. The second overarching conclusion relates to deficiencies in the process that had a negative impact on the conditions for co-financing to be effective.

Regional co-financing was not an effective form of financing for Citybanan

Projects that constitute the state's other commitments in the agreement on the co-financing of Citybanan were not compared with other projects in the country when they were given a high priority in the most recent action plan, but because of the agreement they were specially designated by the Government. In the socioeconomic analyses drawn up during the most recent action plan, the Swedish Transport Administration makes the assessment that many of the state's other commitments are unprofitable. The Swedish National Audit Office makes the assessment that if these projects had been prioritised on the basis of the socioeconomic analyses drawn up during the most recent planning round, they would probably have been given a lower priority than they have in the current plan. The negotiator, however, made the assessment that the low value of the individual projects was outweighed by the fact that they were needed in order to enable the system to work effectively. However, as there is no base data that describes the socioeconomic effectiveness of the whole system extension, it is not possible to determine whether the negotiation has resulted in an effective extension. The Swedish National Audit Office thus confirms that the Government has not guaranteed that it is socioeconomically effective to prioritise the projects in the Citybanan's agreement. The Swedish National Audit Office believes that prioritising projects without socioeconomic base data is in breach of the principle that socioeconomic profitability must be the guiding prioritisation principle in the infrastructure area. It was also the region that made the final choice of projects that were to comprise the state's other commitments under the agreement. The negotiator has maintained that the state largely shared the region's assessment of the necessity of these projects. However, neither the negotiator nor the Swedish National Rail Administration was charged with the task of safeguarding the national interest in the negotiations. According to the Swedish National Audit Office, the absence of base data and the fact that the choice of projects was made on the basis of a regional perspective without any national comparisons represents a risk that co-financing has resulted in a prioritisation of these projects that is not socioeconomically effective.

In assessing the overall effectiveness, the Swedish National Audit Office has also considered other effects of the co-financing process. The Swedish National Audit Office believes that co-financing has produced certain positive effects, such as enhanced coordination between state and region. These are, however, considered to be limited and difficult to substantiate.

The Swedish National Audit Office also confirms that the agreement will provide SEK 2.3 billion (the original SEK 2 billion calculated at the 2011 price level) to the state from the regional parties in a contribution to Citybanan. The co-financing agreement does, however, result in increased debt in the municipal sector, although this is concealed by the new opportunities for municipal financial reporting of co-financing contributions. The new financial reporting policy runs the risk of undermining confidence in public finances and represents an increased risk for the state, as it means that the state is also the ultimate guarantor for the municipal sector's commitments. The fact that the municipalities are lending funds to the state infrastructure rather than the state also creates higher financing costs for the public sector as a whole. When the municipalities adopt the role of financier of state infrastructure, this also has crowding out effects at municipal level. As co-financing was not in practice voluntary, this means that co-financing could probably have been used more effectively within the municipalities' primary operations.

The Swedish National Audit Office also believes that co-financing does not promote sound management of state funds. According to the agreement, the state must pay a penalty to the regional parties in the event of delays in three of the four projects included in the state's other commitments, if the delay is caused by negligence on the part of the state. The state has also undertaken to implement the projects in the agreement regardless of any possible increase in costs. Thanks to the penalty clauses, co-financing has resulted in increased risk exposure for the state. This will result in restrictions in future discretion (which is the consequence of the state having committed itself to implement these projects). These restrictions in turn represent a risk of becoming a cost driver and/or resulting in an ineffective implementation of the action plan, if the prioritisation of the projects in the agreement prevents the effective implementation of the plan as a whole.

Citybanan's regional co-financing has thus resulted in increased risks and costs for both the state and the public sector in general. It is not possible to calculate what the scale of these costs is or will be, but the Swedish National Audit Office confirms that such costs are not present when infrastructure projects are financed by appropriations.

The Swedish National Audit Office makes the overall assessment that the positive effects of co-financing do not compensate for the negative effects. The fact that the Swedish Transport Administration describes Citybanan as the most highly valued national project and as a bottleneck for the whole country's rail system underlines the fact that the project belongs to the core of the state infrastructure. It is the belief of the Swedish National Audit Office that regional co-financing thus clouds the basic allocation of responsibility that exists between public actors at national and regional level (i.e. the state finances and owns state infrastructure, the municipalities own and finance municipal infrastructure).

If the state believes that a project is of major national interest, in the view of the Swedish National Audit Office this should constitute an adequate reason to finance the whole project via appropriations. Secondly, the state can investigate the possibility of obtaining funds through a form of financing that is not based on negotiations or that is not in some other way in breach of well reasoned principles of control of funds in the infrastructure sector.

Citybanan's regional co-financing has not been sufficiently reasoned and transparent

Information to the Riksdag about Citybanan's regional co-financing has not been transparent

The Government has not informed the Riksdag of the costs of the investments that the state is committing itself to implement through the agreement on Citybanan's regional co-financing. According to the Swedish National Audit Office's calculations, the State undertakes, through the agreement on Citybanan's regional co-financing, to implement projects to a cost of SEK 25.4 billion (including the cost of Citybanan). The Swedish National Audit Office draws the conclusion that this is in breach of the fundamental principle that the Government and authorities must have the Riksdag's consent to make decisions on commitments for the future.

Financial reporting of co-financing contributions in the public sector are misleading, result in inadequate transparency and risk undermining confidence in public finances

The Swedish National Audit Office's audit of how co-financing contributions are reported in the public sector indicates several problems. Firstly, in accordance with generally accepted accounting principles, municipal contributions to state infrastructure are not reported as assets. The Riksdag has, however, enacted a new law that permits such a deviation. Secondly, financial reporting means that the actual costs that municipalities receive through co-financing are not evident, and the municipalities can increase their co-financing expenses without being restricted by the municipal requirement for a balanced budget. Thirdly, the Government has not investigated the consequences of the new financial reporting method in connection with the summarising of the national accounts, and the Swedish National Audit Office sees a risk of incorrect financial reporting. For 2010, municipalities and county councils reported co-financing contributions of a total of about SEK 2 billion as assets. The Swedish National Audit Office confirms that the problems described above are thus as yet relatively limited. The Swedish

National Audit Office does, however, believe that the legislation creates incentives for municipal debt, which constitutes a risk that these problems may become more extensive in future. The Swedish National Audit Office also considers it surprising that the legislation, in conflict with generally accepted accounting policies, has been adapted to enable municipalities to increase their expenditure without the actual costs of co-financing being evident in the financial reports.

Co-financing of Citybanan was not based on sufficient base data

The Swedish National Audit Office draws the conclusion that the regional co-financing of Citybanan has been arbitrary in several respects. Firstly, the counties invited to the negotiations were not selected on the basis of a well reasoned principle: Citybanan is of national interest and there are a number of counties that benefit from Citybanan but were not invited to the negotiations. Secondly, a financing principle based on Stockholm's contribution to commuter train stations was used to provide guidance for how much the regional parties should contribute to Citybanan. This in spite of the fact that the regional parties have no share in ownership or operation of the infrastructure, in contrast with Stockholm County Council, which will take over the management of the commuter train stations when the construction of Citybanan has been completed. There are also no analyses of the total costs and benefits of the whole agreement package. Nor were any risk analyses performed with regard to cost increases in the other commitments.

No state actor had a clear responsibility to safeguard the public interest in the negotiations

The Swedish National Audit Office also confirms that no state actor had a clear responsibility for representing the national public interest in the negotiations on Citybanan's regional co-financing. The regional co-financiers had wishes that by definition differ from the public interest, as in a negotiation these parties strive to attract the highest possible level of investment for their own region. The negotiations on Citybanan's regional co-financing illustrate how difficult it is to maintain important principles and cost control in negotiations in view of the requirements of the interested parties for counterpart measures in exchange for contributions to the state infrastructure.

Deficiencies in the Government's reasoning behind Citybanan's regional co-financing have resulted in arbitrary, diluted control of infrastructure planning

The Government's reasons for Citybanan's regional co-financing were a financing deficit in the project and identified regional benefits. The Swedish National Audit Office finds a number of problems with these reasons. The Government has not explained why it was necessary to depart from central principles for the financing and planning of the transport infrastructure. Firstly, the Government did not provide reasons why it was necessary to depart from the principle of state responsibility for the infrastructure. Secondly, the Government did not provide reasons for the deviation from the principle that socioeconomic analysis shall play an important role in the prioritisation of infrastructure extensions. The lack of sound reasoning and guidelines has created arbitrariness that dilutes control in the infrastructure sector and risks reducing the overall socioeconomic benefit of the state infrastructure extensions in Sweden.

In a metropolitan region there may be special reasons for negotiations and more broad-based agreements in order to make any progress in the planning and extension of infrastructure. The Swedish National Audit Office does not, however, consider that this was such a situation.

Recommendations to the Government

In instances where co-financing negotiations are delegated to the Swedish Transport Administration, the Government should make sure that the Swedish Transport Administration follows the Swedish National Audit Office's recommendations.

- Respect the socioeconomic basis for prioritisation when planning transport infrastructure.
- If negotiations on co-financing are considered necessary, this should be reported

transparently, guidelines on co-financing should be developed and sound reasoning provided to deal with deviations from important principles.

- Give a state actor specific responsibility to safeguard and balance the public interest against other actors' interests in negotiations on infrastructure.
- Inform the Riksdag about the future costs of co-financed projects.
- Investigate the consequences of co-financing in the public accounts.
- Do not use penalty clauses in co-financing agreements.
- Improve documentation management.

PLANNING TRANSPORT INFRASTRUCTURE

The Riksdag decides on the direction and financial framework of the transport infrastructure for a planning period of about ten years. The transport administrations then initiate what is known as policy planning, which aims to result in the adoption by the Government of a national plan describing which roads and railways are to be built during the period. The Riksdag and the Government have repeatedly stated that the fundamental principle of prioritisation for the infrastructure is socioeconomic profitability, which guarantees the greatest possible effectiveness in the use of state funds. They have also stated that this principle shall apply regardless of how the various investments are financed and that co-financing shall not change the fundamental allocation of responsibility for the infrastructure between state and municipality.