

16/2015

Extract from Rigsrevisionen's report on

the Ministry of Transport and Building's involvement in Aarhus Letbane (light rail project in the city of Aarhus)

submitted to the Public Accounts Committee

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1849
147.281
237
1976
114.6
22.480
908

1. Introduction and conclusion

1.1. PURPOSE AND CONCLUSION

1. This report concerns the Danish Ministry of Transport and Building's (Ministry of Transport) involvement in Aarhus Letbane (light rail project in the city of Aarhus). The cost associated with the construction of the light rail is currently approximately DKK 700 million (approximately 60 per cent) higher than originally estimated in the Aarhus Letbane Act. Rigsrevisionen initiated the study in September 2015.

The Ministry of Transport participated in the preparations of the light rail project on behalf of the Danish government, and was in the period 2012 to 2015 co-owner of the company *Aarhus Letbane I/S*, whose responsibility it was to implement the actual construction of the light rail. The government retired as co-owner of Aarhus Letbane I/S in 2015, after it became clear that the cost of the project would increase. The government is, however, still funding the project. This study concerns only the Ministry of Transport, and we have not examined how the other owners – the City of Aarhus and Central Denmark Region – have managed their participation in the light rail project or how this has affected the course of the project.

2. Aarhus Letbane is the first of its kind in Denmark. The light rail is a modern electric tram train. In the city of Aarhus, the trams will run on a track in the road among the other traffic. Outside the city, the trams will run on tracks separated from other traffic, like ordinary trains. Construction work in Aarhus is ongoing, and is currently expected to be completed in the course of 2017.



Visualised image of light rail tram at DOKK1 in Aarhus

Source: Aarhus Light Rail I/S

3. From the outset, the light rail project was developed and managed by the local stakeholders, i.e. the City of Aarhus and Central Denmark Region. The government's involvement goes back to January 2009, when the Danish parliament allocated DKK 500 million to a light rail project in Aarhus. In the following years, the government, the City of Aarhus and Central Denmark Region set up a collaboration and started preparing the technical aspects of the project: how it should be organized and implemented, and how it should be funded. In November 2010, a political agreement was reached; the Danish parliament allocated DKK 700 million to the light rail project, and the government was to become co-owner of the construction company.

In May 2012, the Danish parliament decided to establish a partnership – jointly owned by the government (represented by the Ministry of Transport), the City of Aarhus and Central Denmark Region – with responsibility for the construction of the light rail. In a partnership, the owners have joint and several liability for any unforeseen expenditure. It was determined in the Aarhus Letbane Act that the liability of the owners should be restricted to their ownership share; the government owned 47 per cent of the company.

In May 2012, the cost of the project was estimated at approximately DKK 1.2 billion of which the government had contributed DKK 600 million. In addition to this amount, the government had made a provision of DKK 100 million to cover potential cost increases.

In 2014, when the owners established that cost had increased beyond the budget, they also concluded that the project had been underbudgetted from the start. The cost of the project was now estimated to be approximately DKK 1.9 billion. The government retired as co-owner of Aarhus Letbane I/S on 1 April 2015, but still contributes approximately DKK 1 billion to the construction of the light rail system.

4. According to the Ministry of Transport, the course of events surrounding Aarhus Letbane in terms of organisation and economy has been extremely problematic, and characterised by conflicting interests and poor cooperation between the owners of the company.

5. The purpose of this study is to assess if the Ministry of Transport's participation in the construction of Aarhus Letbane has been adequately managed. The report answers the following questions:

- Has the Ministry of Transport ensured that the financial basis for the government's decision to become co-owner of Aarhus Letbane I/S was adequate?
- Has the Ministry of Transport exercised active ownership of Aarhus Letbane I/S from 2012 to 2015?
- Has the Ministry of Transport ensured that 1) the government will not be held liable for any further increases in the cost of the project following its retirement from Aarhus Letbane I/S, and 2) that the funding provided by the government is used as intended?

CONCLUSION

It is Rigsrevisionen's assessment that the Ministry of Transport's participation in the construction of Aarhus Letbane in the years leading up to 2015 was inadequate. The Ministry of Transport did not to the extent required draw on its professional competencies regarding construction projects and its experience as company owner.

Firstly, the Ministry of Transport did not ensure that the government's decision to become co-owner of Aarhus Letbane I/S was made on an adequate financial basis. The Ministry did not make an assessment of the construction budget and provisions made to determine, if the project was sufficiently funded. Hence, the Ministry did not consider whether it would be possible to implement the planned project with the funds allocated, nor did the ministry assess the financial risks that might be associated with the government's involvement in the company as co-owner.

Secondly, the Ministry of Transport did not actively exercise ownership of the company in the period from 2012 to 2015. The ministry had stipulated that Aarhus Letbane I/S should report to the ministry quarterly on the economy of the project in order to enable the ministry to monitor the development and make sure that the project stayed within the budget. The ministry did not receive this information, yet approved the company's plans to start major construction works for DKK 250 million in the spring 2013. In the opinion of Rigsrevisionen, the ministry should instead have put the project on hold and assessed the situation to get an overview of the economy, because starting the construction works in reality undermined the owners' possibilities of stopping the project if it became more expensive than estimated. The ministry did not put the project on hold until the spring of 2014, by which time the increase in cost was inevitable.

The Ministry of Transport informed the Danish parliament of the status of the project on several occasions during its time as co-owner of Aarhus Letbane I/S. However, it is Rigsrevisionen's assessment that the ministry should have communicated more clearly to the parliament its uncertainty concerning the prospects of keeping the project within the budget.

When the government retired from Aarhus Letbane I/S in 2015, the Ministry of Transport made an agreement with the remaining owners of the company, among others, to safeguard the government against further unforeseen cost related to the project. The Danish Road Directorate assists the ministry in its supervision of the government's grant to the project. The supervision is, among other things, based on the principles for monitoring economy that appear from the government's new budgeting model for infrastructural investments. The ministry also has access to impose various sanctions on Aarhus Letbane I/S if the government grant is not used as intended.