



Extract from the report to the
Public Accounts Committee on
the restoration of the railway
infrastructure

March
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Introduction and Results

1. This report concerns the Ministry of Transport's supervision of Banedanmark (state-owned railway enterprise, operating and developing the Danish state railway network) and Banedanmark's restoration of the railway infrastructure.

2. Rigsrevisionen has previously examined Banedanmark: In report no. 14/01 on Banestyrelsen (June 2002), report no. 13/03 on the Ministry of Transport's management (September 2004), and report no. 1/05 on seven Banedanmark cases which had been submitted to the Folketing's Finance Committee (September 2005). The three reports concluded that Banedanmark's management of finance and projects was not satisfactory, and consequently the supervision provided by the Ministry of Transport was considered inadequate.

In continuation hereof, the Ministry of Transport implemented more rigorous supervision of Banedanmark in October 2005.

3. In October 2006, the government, Dansk Folkeparti and the Social-Liberal Party made a "Traffic Agreement for 2007" regarding railways and roads. The Traffic Agreement for 2007 determines the financial framework for the restoration of the railway infrastructure in 2007-2014. According to the agreement, an additional amount of DKK 4.7 billion will be allocated to the railway sector.

The main purpose of the restoration of Banedanmark's railway infrastructure is to increase train regularity. This objective will be achieved when Banedanmark has eliminated the current maintenance and renewal backlog in all but the signal area, by 2009 and 2014, respectively.

Maintenance includes continuous repair of damage to the railway system and replacement of components to ensure that the system remains in fully functional condition.

Renewals, or reinvestment, include activities which will considerably reduce maintenance costs related to the railway system or extend the life time of the railway system.

4. The objective of the examination is to assess whether the Ministry of Transport's supervision of Banedanmark and Banedanmark's management are progressing and creating a platform for achievement of the objective set for restoration in the Traffic Agreement for 2007.

The examination will answer 2 questions:

- Has the Ministry of Transport's supervision of Banedanmark improved?
- Has Banedanmark's management improved?

5. Rigsrevisionen launched the examination in February 2007 on the request of the Public Accounts Committee.

RESULTS OF THE EXAMINATION

It is Rigsrevisionen's overall assessment that the Ministry of Transport's supervision of Banedanmark and Banedanmark's management have generally improved. In 2006 and 2007, the Ministry of Transport and Banedanmark have launched a number of initiatives which are expected to have a positive influence on Banedanmark's restoration of the railway infrastructure. This process is not yet completed as the restoration of the railway infrastructure has not yet been fully implemented. Rigsrevisionen recommends that the Ministry of Transport and Banedanmark continue to follow very closely the process of change which Banedanmark is currently going through.

Rigsrevisionen's overall assessment is based on:

The Ministry of Transport's supervision of Banedanmark has improved as a result of the implementation of new supervision procedures and monthly reports on progress made in relation to Banedanmark's performance contract. The requirements to reporting have also entailed that the Ministry of Transport follows very closely the development related to the Traffic Agreement for 2007. Rigsrevisionen recommends the Ministry of Transport to continue the intensified supervision and follow very closely the development of Banedanmark.

The Ministry of Transport's Supervision of Banedanmark

- The Ministry of Transport has now changed the organisational structure of the supervision of Banedanmark and developed clear written procedures for the supervision. The Ministry of Transport adheres to the procedures in practice which has clarified the ministry's allocation of responsibilities and tasks.
- Rigsrevisionen recommends the Ministry of Transport to continue the intensified supervision of the development of Banedanmark, because the process of change has naturally not yet had full positive impact. Thus the number of critical finance and project management cases in Banedanmark, which the Ministry of Transport is discussing with Banedanmark, has not been reduced from 2006 to 2007.

The Implementation of the Traffic Agreement for 2007 in Banedanmark's Performance Contract.

- The Traffic Agreement for 2007 establishes clear objectives for the development of train regularity and elimination of the backlog.
- However, Banedanmark's statement and knowledge of the backlog were uncertain. Consequently, achievement of the objectives set for train regularity and elimination of the backlog is also subject to uncertainty. However, Banedanmark has launched various initiatives to improve its knowledge of the backlog. Rigsrevisionen recommends that Banedanmark continues this work and that the Ministry of Transport continues to follow up on and ensure that Banedanmark's control of the backlog improves continuously.
- Banedanmark's performance contract reflects the objectives set in the Traffic Agreement for 2007 and the more rigorous supervision implemented by the Ministry of Transport.

First Progress Report on the Traffic Agreement for 2007

- Rigsrevisionen is of the opinion that the Ministry of Transport's progress report on the Traffic Agreement for 2007 shows that the objectives of the traffic agreement set for 2007 are expected to be achieved. The final statement of results achieved in 2007 will be included in Banedanmark's annual report for 2007 which is due in mid April 2008.
- In 2007, Banedanmark has re-calculated the financial backlog related to maintenance of the rails. According to the re-calculation, the backlog has increased from DKK 150 million to DKK 297 million of which DKK 66 million are related to the introduction of new standards for maintenance of railway sleepers.

The framework for Banedanmark's management has been improved due to the development of a renewal plan and introduction of improved planning procedures. Rigsrevisionen recommends Banedanmark to speed up completion of a system for assessment of the condition of the railway infrastructure and an extensive plan for elimination of the maintenance backlog. Moreover, Rigsrevisionen recommends that the Ministry of Transport and Banedanmark follow very closely the effect of the initiatives launched.

Banedanmark's Plan for Restoration

- Banedanmark has in its renewal plan established clear physical and financial subobjectives for elimination of the renewal backlog in 2007-2009. The priorities of this plan are in compliance with the Traffic Agreement for 2007.
- In 2007, Banedanmark identified a number of risk areas which could jeopardize Banedanmark's implementation of the planned renewal project in 2007-2009. Rigsrevisionen is of the opinion that this analysis contributes to optimize Banedanmark's possibilities of implementing its renewal plan.
- Banedanmark has not worked out a similar plan for elimination of the 2007 maintenance backlog and the size of the backlog is uncertain. Whether the maintenance backlog can be eliminated as projected is therefore connected with some uncertainty.

Initiatives within Financial and Project Management

- Banedanmark has in its strategic plan "Control with the Railway – Strategic Plan 2006-2009" in 2006 emphasised some of the challenges which the Traffic Agreement for 2007 poses for Banedanmark. The Ministry of Transport and the Ministry of Finance follow the implementation of the strategic plan and the project will be submitted to external evaluation in 2009.
- With the strategic plan, Banedanmark has taken a significant step forward to ensure improved finance and project management. Banedanmark has previously tried to implement a similar project. Rigsrevisionen recommends that Banedanmark, the Ministry of Transport and the Ministry of Finance continuously follow up on the individual themes of the strategic plan and their effect on the development of Banedanmark.

Asset Management System

- The Asset Management System is an electronic register providing Banedanmark with a systematic overview of the railway plant and equipment and its condition. The development of the system is divided into two phases. As of yet, the system does not serve the purpose of phase 1, as it does not provide adequate overview of the condition of Banedanmark's plant and equipment. In its current form, the Asset Management System provides Banedanmark with only limited possibilities to follow-up on and plan the railway infrastructure. This means that Banedanmark still has no complete system providing access to exert future oriented management of the railway infrastructure. As of yet, no specific projects for phase 2 have been determined. In phase 2, the Asset Management System will be connected to the finance system.

Improvement of Efficiency

- Banedanmark's method to measure efficiency has improved. Rigsrevisionen recommends Banedanmark to continue its efforts to make the method more valid and exhaustive.