



RIKSREVISIONEN

Summary:

Co-financing of central government infrastructure

RiR 2011:28

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The Swedish National Audit Office (the Swedish NAO) has audited the co-financing effort that was carried out in connection with the latest action planning for transport infrastructure. The Swedish NAO has also audited the advance payment initiatives of recent years. Our overall conclusion is that the effort has not been effective and that the use of advance payment contributes to the problems.

Background to the audit

The Government's latest action planning assigned the Swedish Transport Administration to systematically seek co-financing for central government infrastructure in the form of financial contributions from local authorities and other stakeholders, congestion tax and user fees. The Government's objective was that increased co-financing would permit a larger volume of investment measures to be carried out, as well as improved infrastructure due to closer cooperation. Co-financing was to be voluntary on the part of the stakeholders, and neither the socioeconomic priority principle nor the basic allocation of responsibilities for central government infrastructure was to change because of co-financing. There was a conflict between the effort's two objectives of obtaining additional money for central government infrastructure on the one hand and improving infrastructure on the other. Carrying out the assignment in practice would have required specific principles and guidelines for handling the conflict between the two objectives. A conflict also existed between the socioeconomic priority principle and the objective of obtaining additional money for the central government component of the investments. Negotiations between the Transport Administration and stakeholders included a number of discussions to the effect that the stakeholders would lend funds to the Transport Administration interest-free ("advance payment") as a means of accelerating investments. Advance payments have been employed for a long time, but this new use of the practice violated the regulations.

The purpose of the Swedish NAO audit was to determine whether the co-financing effort had been effective. Thus, the *process* carried out by the Government and Transport Administration to ensure greater co-financing was audited. The audit also included an assessment of whether the *outcome* of the effort was effective. The Swedish NAO) also investigated whether advance payment was used in accordance with the intentions and applicable regulations.

The empirical data for the audit consisted of various governing documents and decision making data at the Transport Administration. In addition, the Swedish NAO assigned the Swedish National Road and Transport Research Institute (VTI) to systematically review the co-financing agreements that had been signed as part of the action planning. The Swedish NAO also audited the advance payment transactions that the Transport Administration conducted in 2008-2010. Furthermore, a number of interviews were conducted with representatives of the government agencies concerned.

Results of the audit

The Swedish NAO concludes that the co-financing effort made a net contribution to the central government investment framework and that co-financing negotiations enabled coordination and improvement of central government and local investments. Nonetheless, the NAO notes a number of problems with co-financing and advance payment. In terms of the co-financing effort, the very *process* – from concept to implementation – was flawed in a number of respects. With regard to the *outcome*, the Swedish NAO also identified a series of factors that had reduced effectiveness. The most important factor in this connection is that co-financing had been able to *confer priority to the national action plan*, which reduced the socioeconomic benefit of the entire effort. The system of *advance payments* was not used expediently during the period audited, which also allowed stakeholders to gain priority to central government investment funds.

Results of the co-financing negotiations – some coordination and contribution of funds

The Swedish NAO's audit shows that the co-financing effort created greater scope for infrastructure investments. The Swedish NAO concludes that the contribution to central government funds was not as great as the Government reported. Given that the audit showed that both some of the co-financing contributions and some of the central government funds went to investments that were outside the central government's sphere of responsibility, the Swedish NAO deems the actual contribution to have been considerably less than the SEK 25 billion contribution from stakeholders that appears on paper. In addition, user fees in the form of congestion tax and tolls contributed approximately SEK 40 billion, but the Swedish NAO does not deem that to constitute real co-financing. Besides the funds contributed, there were positive effects in the form of greater coordination with local stakeholders. These effects are difficult to appraise.

The pre-negotiation process suffered from several flaws

The Swedish NAO concludes that the Riksdag and Government did not provide the Transport Administration with any guidelines as to how the conflicts of objectives were to be handled. Nor did the guidelines of the Transport Administration specify how to prioritise between the objectives of obtaining additional money on the one hand and promoting coordination on the other. Nor did the Transport Administration develop clear guidelines and principles for conducting co-financing negotiations. As a result, the negotiations were not conducted uniformly and were insufficiently documented.

Negotiations on priority led to lower socioeconomic effectiveness

Prior to the negotiations, the Transport Administration guidelines stated that a number of typical cases of co-financing could influence the prioritisation of projects in the action planning. The Government did not object to the statement but specified that the guidelines be used in the action planning. Thus, the Riksdag's intentions with respect to both the voluntary nature of co-financing and the retention of the socioeconomic priority principle were not met. As a result, less profitable projects with co-financing outcompeted more profitable measures without co-financing. The benefit to citizens of the overall

measures in the national plan declined accordingly.

Risk that the negotiations led to unwanted reallocation

The incentives for the stakeholders during the negotiations were to offer the minimum co-financing required to attract central government investments to their region. The fact that negotiations also involved specifying the responsibility of the central government and the magnitude of the local benefits from the central government's investment increased the risk that otherwise equal stakeholders would profit from the negotiations in different ways.

The Swedish NAO finds that stakeholders with abundant resources –the highest per capita income, political unity, negotiation skills, etc. – were able to negotiate the projects that were most useful for them. Contributions by stakeholders with abundant resources to the central government commitment could have freed up central government resources for investment in areas with sparse resources. However, the Swedish NAO audit shows that the contributions of a number of the co-financed projects to the central government commitment were small or even made net claims on central government funds. All in all, a palpable risk emerged that the co-financing effort would prevent local authorities and regions with fewer resources from obtaining central government investments to the same extent as they had previously. Given that the projects excluded from the plan because other co-financiers had been given priority cannot be identified, however, there is no way of saying with utter certainty that such was the case.

The allocation of responsibilities has become even less clear and there is a risk of arbitrariness

Most co-financing agreements did not indicate who was responsible for which part of the infrastructure. However, the Swedish NAO concludes that the co-financed projects included some where the central government assumed responsibility and paid for that which should have been the municipality's responsibility, whereas the municipality paid for the same type of investment in other cases.

Negotiations based on local benefits caused problems

Local and regional benefits are difficult to quantify and appraise, and there are no well-developed methods for doing so. Allowing such benefits to form the basis of financing negotiations is thereby dubious in the eyes of the Swedish NAO. There is a large risk that the local benefits will be quantified and appraised differently in each individual case, rendering it impossible either to compare different projects or to compare co-financed projects with the others.

Negotiations on user fees created problems

When the Transport Administration negotiated with stakeholders on co-financing in the form of various user fees, future users rather than the stakeholders were responsible for the financing. User fees require expensive systems, can have unwanted effects on traffic flow and are an uncertain source of financing. The total impact is various types of inefficiencies. The Swedish NAO concludes that negotiating on co-financing in the form of user fees in individual cases is inappropriate.

Advance payments were not used expediently and they generated problems

The Swedish NAO's audit shows that advance payments were used by the Transport Administration to

handle delays, and by stakeholders to make sure that their own projects would materialise. Advance payment also got intertwined with the co-financing negotiations. In short, the socioeconomic priority principle was partially neutralised and the advance payments limited future manoeuvrability as well.

The co-financing effort posed a risk of poorer cost control

In a negotiation situation where everyone is to be satisfied with the outcome, the Swedish NAO believes there is considerable risk that the negotiated solution will be more expensive than the central government's basic solution and the co-financier will not always account for that entire increase. The Swedish NAO has also identified a risk that co-financing by stakeholders will prevent more cost-effective solutions to existing traffic problems, such as rebuilding or sound absorption measures, from being sufficiently tried. The reason is that stakeholders are more interested in attracting new investments to their regions. The Swedish NAO's audit also found that most co-financing agreements were designed such that the co-financier did not have any incentive to control costs.

The Swedish NAO's recommendations

Recommendations to the Government

- Return to the socioeconomic priority principle that does not consider how the investments are to be financed
- Consider investigating the options for effectively designed, uniform user fees
- Consider investigating whether it is possible or desirable to restore some of the increased land values to the central government
- Develop clear principles for the central government's infrastructure responsibilities
- Review ways of balancing the incentives of various actors against the public interest in connection with infrastructure negotiations
- Consider lowering the ceiling for advance payments and clarify their purpose

Recommendations to the Transport Administration

- Improve general documentation handling throughout the agency
- Clarify who the customer is and the purpose of the various documents
- Improve overall reporting of the costs and financing of the investments
- Develop methods for appraisal, calculation and handling of local benefits
- Develop the template for assessment of overall effectiveness
- Draw up guidelines for documentation of financing, design and implementation
- Put together central principles for user fees
- Adapt intra-agency procedures for advance payment to the guidelines of the official appropriations document and develop priority principles

Fact box

The Government establishes a focus and financial framework for transport infrastructure to cover a planning period of approximately ten years. The Transport Administration then launches action planning, which targets adoption by the Government of a national plan of the roads and rail lines that are to be built during the period. The Riksdag and Government have stated on numerous occasions that the basic priority principle for infrastructure is socioeconomic profitability, guaranteeing the greatest possible cost-effectiveness in the use of central government funds. They have also stated that the principle is to remain in effect regardless of how the various investments are financed. In autumn 2008 the Riksdag approved a framework of SEK 184 billion for investments in the central government transport infrastructure. A decision was also made that the Transport Administration would explore the possibility of attracting co-financing for the central government infrastructure from local stakeholders as part of the upcoming action planning.

Since the late 1980s, it has been possible for local stakeholders to accelerate planned central government infrastructure investments by means of advance payment, i.e., lending investment funds interest-free to the Transport Administration. In 2011, total advance payment by stakeholders accounted for almost 30 per cent of the Transport Administration's ongoing investments.