Overview of the funding and development of public railways

How have public railways been funded over the last ten years and which investments are planned for the development of the railways in the coming years?

Summary

What did we look at?

The National Audit Office conducted an overview of the development goals of the Estonian railway sector and how these goals have been implemented in the last ten years (2010–2019) and how they are planned to be implemented in the future. In the course of conducting the overview, the National Audit Office examined how projects and railway undertakings are being funded and how much of the money required for the maintenance and development of the railways comes from the state budget. In addition, it was examined which railway projects and to which extent have been funded over the last ten years and which projects are planned to be funded in the future.

Why is this important to taxpayers?

The state finances the railway sector through public passenger transport subsidies, targeted financing of infrastructure investments, balancing the costs and revenues of AS Eesti Raudtee, financing of rental payments for passenger transport vehicles, and European Union support for the implementation of development projects. In the last ten years, the Ministry of Economic Affairs and Communications has allocated a total of 522.8 million euros from the state budget to railway undertakings for this purpose. Of this, the state has allocated 310.2 million euros of its own funds to finance the railway sector, and the state has funded the investments with European Union support to the extent of 212.6 million euros.

The National Audit Office conducted the overview with the aim of gathering information about the management and development of public railways.

What did we notice as a result of conducting the overview?

The state does not have a comprehensive plan for the development of railways: different strategy documents set out a number of objectives that are intended to be achieved in the railway sector, but there is no uniform plan to implement them. It would make sense to develop railways in accordance and in cooperation with other modes of transport to better organise the movement of both goods and passengers.

The development of railways depends on investments that can be made from state budget and European Union funds, because the revenue of state-owned railway undertakings AS Eesti Raudtee and AS Eesti Liinirongid (Elron) is smaller than their expenditure, which is why they do not have enough funds for investments.

The plan is to invest more than 2.6 billion euros in railways by 2030: about 41.5 million euros is planned to be allocated from the state budget in 2020–2023 for the development of the current public railways and 344 million euros for the construction of Rail Baltic. As the state budget is planned for four years, it is not known how much money will be allocated for railway projects in the future.

- **There are many documents that set out objectives for the development of the railway sector, but there is no uniform comprehensive plan** that would help to understand through which activities and by which time the objectives are to be met and how much the implementation of the objectives costs. This means that no connections have been made between the objectives arising from development documents and the investments of the action plan guiding the development of the public railway infrastructure and there is no clarity as to how much money has already been spent on meeting the objectives and how much money is still needed.

  The main objectives both on the national level and the level of the European Union are to take passengers and goods from road to rail, reduce greenhouse gases in the transport sector, create a rail link with Europe, and increase the speed of passenger trains.

- **The state has set the objective of prioritising the development of railways and taking goods and passengers to the rail to a greater extent. In reality, more attention has been paid to the development of roads in recent years.** Some measures aimed at roads have run counter to the objectives of railway development. This means that the use of roads for transport is still more advantageous than the use of railways. One example of a conflict between the objectives is the introduction of free county bus transport while rail travel has to be paid for. This motivates passengers to use bus transport while there are alternatives.

  It should be borne in mind that the maintenance of the public railway infrastructure is increasingly dependent on state support and the sector requires additional major investments. In order to be consistent with the development of other modes of transport, railways should be developed as part of a broader transport sector.

- **When comparing the financing decisions of recent years with the investment plans for the management and making investments in the railway sector, obtaining funds for all the activities may not be realistic.** In 2019, the Government of the Republic adopted an action plan for 2019–2024 guiding the development of the public railway infrastructure. The action plan approves nearly 431 million euros for projects required for the maintenance and improvement of the railway infrastructure and approximately 560.7 million euros for other so-called potential development projects pending an implementation decision and/or funding.

  23.7 million euros was allocated in 2020 and 17.8 million euros is planned to be allocated in 2021 for the reconstruction of the existing railways, increasing speeds, and for new developments. Added to this is part of the funds from the sale of CO_2 quotas allocated to the area of government of the Ministry of Economic Affairs and Communications, which is to be used for financing, among others, railway projects. In 2020, for example, the amount is 24 million euros. The state budget does not, however, specify how much of the funds is aimed at railway projects.

  The projects included in the action plan are accompanied by the construction of Rail Baltic, the Estonian share of the total cost of which is 1.59 billion euros, as well as investments in the rolling stock. According to the explanatory memorandum to the State Budget Act of 2020, 41 million euros have been allocated to the new railway, i.e. Rail Baltic, in the state budget for 2020 and a total of 344 million euros have been allocated for 2020–2023.

  Considering the current practice of financing the railways and the funds planned for the development of the railways in the state budget for the coming years, obtaining funds for all the planned activities may not be realistic. At the same time, the possibilities for making investments will become clear in the course of preparing the next state budget strategies and state budgets and as the possibilities of the new financing period of the European Union become known. This means that a decision has to be made on whether all the railway development plans are necessary, or funds have to be found to implement these.

- **The implementation of railway development projects depends on how much money the state allocates for the development of railways. The state can use the state's own funds, European**

Union funds and/or funds from the sale of CO_2 quotas. This means, however, that the European Union and agreements resulting from the sale of quotas affect the choice of railway development projects. In recent years, projects have been implemented mainly to maintain the quality and safety of the railways, plus there have been development projects for increasing and/or maintaining speeds.

Development projects have mostly been implemented when funds have been received for them from the European Union. Projects arising from the action plan of the Government of the Republic have also seen speedier financing decisions, for example the construction of Turba railway. One of the largest projects in the near future – the construction of Rail Baltic, electrification of the majority of the railway, and acquisition of new rolling stock for passenger transport – is planned to be financed with European Union support and/or revenue from the sale of CO_2 quotas.

- **The state budget does not provide an accurate overview of how much money the state is allocating to the railway sector.** Among the undertakings in the railway sector, income has been higher than expenditure only for those undertakings to whom the state has paid support from the state budget, including from the European Union funds. AS Eesti Raudtee is managing only thanks to the state support. At the same time, it is not clear from the state budget strategy nor the state budget or its explanatory memorandum how much support AS Eesti Raudtee needs, although the need for support is known at the time of preparing the state budget. Support has been allocated to AS Eesti Raudtee in the middle of the year in the course of amending the budgets.

- **The purpose of railway infrastructure charges to be paid by rail users needs clarity.** In the last ten years, 64% of the income of infrastructure operators – AS Eesti Raudtee and AS Edelaraudtee – has constituted railway infrastructure charges paid by passenger and freight transport undertakings. In 2019, enterprises paid 21.4 million euros of railway infrastructure charges for freight transport and 19.9 million euros for passenger transport.

  The Consumer Protection and Technical Regulatory Authority (CPTRA) calculates railway infrastructure charges based on the agreed methodology and assesses the ability of freight carriers and Elron to pay the charges. If the CPTRA assesses the ability to pay to be low, the infrastructure operators receive less railway infrastructure charges to maintain the railways and the state has to pay the outstanding share from its own budget. If the CPTRA assesses the ability to pay to be high, there is a risk that freight transport by rail decreases even further and railway infrastructure charges from freight transport will still fall away. It should therefore be agreed what is the purpose of the railway infrastructure charges and how much is optimal to be charged from undertakings.

What should be agreed on?

As a result of the overview, the National Audit Office found that in a situation where freight transport by rail has decreased and the share of passenger transport by rail is growing, a decision should be made how to optimally manage, develop, and finance the railway sector as one part of the transport sector. In the opinion of the National Audit Office, the following questions should be answered:

- What are the primary needs for railway development? Which activities and in what timeframe should they be implemented as a matter of priority?

- What are the realistic plans for railway development, given that the revenue of railway infrastructure undertakings and Elron from business is lower than expenditure and there is not enough money for all the investments?

- What is the goal that the state is hoping to achieve with the surcharges for the basic service of railway infrastructure charges – is it to create a competitive advantage for freight transport by rail, obtain the highest possible revenue from freight carriers, or something else?

- If and how should railway infrastructure management be integrated into the intermodal transport agency to be established in order to ensure cost savings and joint planning of transport?

The National Audit Office will continue to monitor the updating of the action plan for 2019–2024 guiding the development of the public railway infrastructure, preparation of the state budget and state budget strategy, development of the Rail Baltic railway, and the establishment of the intermodal transport agency.