



The progress of adopting changes to the scope of Rail Baltica Latvian section

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Review report

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The progress of adopting changes to the scope of Rail Baltica Latvian section

The national review has been carried out within the framework of the general review of significant aspects and problematic issues in the implementation and financing of the Rail Baltica project (audit schedule No 2.4.1-44/2023), which was carried out in cooperation with the supreme audit institutions of Estonia and Lithuania, based on the concluded cooperation agreement of 15 December 2023 and Article 3, paragraph three, subparagraph c) of the State Audit Law of Latvia.

The review was carried out by Head of the Audit Group and Senior State Auditor Lawyer Baiba Amoliņa, State Auditor Eva Vorona, State Auditor Inga Briede, Head of the Responsible Sector Larisa Reine, and Department Director Inese Kalvāne.

The cover design uses a photo from the personal archive of the auditors.

Why have we drafted this report?

The Rail Baltica project is the largest infrastructure project in the Baltic States aiming to integrate the Baltic States into the European railway network by building a new railway infrastructure (with the European standard gauge of 1,435 mm) from Tallinn through Pärnu-Rīga-Panevėžys-Kaunas to the Lithuanian-Polish border, including Vilnius – Kaunas connection as part of the railway network.

The total planned costs for the implementation of the Rail Baltica project were estimated at 5.79 billion euros in 2017, of which 1.97 billion euro were estimated for Latvia.

The project has expanded in scope and cost estimates have increased since its initial conception. In the review conducted jointly with the Supreme Audit Institutions of Estonia and Lithuania (hereinafter referred to as the Baltic SAI review) in 2024, one has found that the total costs compared to the 2017 cost-benefit analysis estimates have increased approximately four times, reaching 23.8 billion euros. Of these, 9.6 billion euros are the costs of the Latvian section.

The Ministry of Transport has also indicated in the Rail Baltica Progress Report 2022¹:

While it was planned initially to build a 1435 mm wide railway infrastructure in Latvia, which would connect Latvia to Estonia in the north and to Lithuania in the south, further providing a connection with Poland, then, upon concluding the Rail Baltica Operational Activity Study, a decision was made to create the Rail Baltica Economic Corridor, which would ensure greater social and economic benefits, such as regional traffic in the future.

In the Baltic SAI review, it was chosen to consider three examples from each Member State, which characterized the overall price increase of the project. In the Latvian section, the following sites were selected: regional stations, Riga Central Passenger Terminal node and the construction of the main line.

Since 2023, discussions have been going on in the public and political environment of Latvia about how various changes related to the scope of the Rail Baltica project came about and who made decisions about their implementation. Including how regional stations were included in the scope of Rail Baltica Latvian section, why such extensive reconstruction works were carried out at the Riga Central Passenger Terminal and why the costs of the main line contract concluded at the end of 2023 were so high.

Taking into account the above, the State Audit Office of Latvia decided to draft a national review report (hereinafter referred to as the Review) in addition to the Baltic SAI review report to reveal the established facts about how the mentioned three sites were included in the scope of the Rail Baltica project and how decisions were made regarding significant changes in them. The involvement of the Cabinet of Ministers in examining and approving these decisions was also considered.

The purpose of the review is to gather facts without drawing conclusions or making recommendations, while helping stakeholders identify significant risks and weaknesses and take action to address them.

¹ Informative Report on the progress of the implementation of the Rail Baltica project in Latvia of the Ministry of Transport of 12 April 2022 (IP), considered by the Cabinet of Ministers on 24 May 2022, protocol decision-22-TA-802.

Summary

The Cabinet of Ministers determined the initial scope of Rail Baltica Latvian section on 24 August 2016 under Cabinet Order² which accepted the activity intended for the construction of Rail Baltica in accordance with the requirements of the Railway Law³. The international agreement on the establishment of the Rail Baltica railway connection signed among the Baltic States in 2017⁴ does not specify the specific scope of the project in each member state.

During the review, it was found that the Ministry of Transport (i.e., the Minister of Transport, the State Secretary or his/her Deputy) approved changes in the scope of the Rail Baltica project regarding the sites included in the scope and the costs related to them. At the same time, it was clarified that the Cabinet of Ministers was informed not in all cases when the initial scope of the project was changed and the planned costs increased following a uniform approach. There were differences in approach depending on a site.

- ❖ **Regional stations** were not included in the initial scope of the Rail Baltica project approved by the Cabinet of Ministers in 2016. The inclusion of regional stations in the scope is based on the Operational Plan of Rail Baltica⁵ developed in 2018 (hereinafter referred to as the Operational Plan), which was approved by the Board of JSC RB Rail. The Ministry of Transport has not forwarded the Operational Plan to the Cabinet of Ministers for approval.

In the view of the Ministry of Transport, the Cabinet of Ministers has approved the inclusion of regional stations in the scope of the project by supporting the application of the Ministry of Transport for the call for the Connecting Europe Facility (hereinafter - CEF) in 2020, where the activity of designing regional stations was announced as one of the activities. After getting acquainted with the informative report submitted to the Cabinet of Ministers and reviewed on 18 February 2020, the auditors find that the Ministry of Transport did not draw the attention of the Cabinet of Ministers in the report to the fact that the regional stations were not included in the initial scope of the project, and also did not provide the Cabinet of Ministers with estimates of the costs for the implementation of the stations and the related increase in the total project implementation costs.

Between 2018 and 2024, the number of regional stations included in the scope of Rail Baltica project has changed from 15 to 17. The Cabinet of Ministers has accepted the design of 16 regional stations, but the Ministry of Transport has decided on the need for one more additional station, i.e., Āgenskalns Station. An in-depth implementation evaluation of the stations whose drafting necessity is determined in the Operational Plan is available only for three stations.

² Cabinet Order No 467 on the acceptance of the activity planned for the construction of the Rail Baltica public use railway infrastructure line of European standard gauge of 24 August 2016.

³ Section 22.¹ of the Railway Law.

⁴ Agreement among the Government of the Republic of Estonia, the Government of the Republic of Latvia and the Government of the Republic of Lithuania on the establishment of the Rail Baltic/Rail Baltica railway connection of 31 January 2017. Law on the Agreement of the Government of the Republic of Estonia, the Government of the Republic of Latvia and the Government of the Republic of Lithuania on the establishment of the Rail Baltic/Rail Baltica railway connection of 31.01.2017.

⁵ 15.11.2018 Rail Baltica: Preparation of the Operational Plan of the Railway Final Study Report.

Estimates of the design and construction of 17 regional stations and available funding obtained during the review are the following:

Cost estimate 2023/2024 ⁶	Available funding ⁷	Missing funding
102 million euros	3.34 million euros	98.66 million euros

- ❖ **The node of Riga Central Passenger Terminal** was included in the initial scope of the project, but on a smaller scale than it is currently being implemented. The node of Riga Central Passenger Terminal includes Rail Baltica tracks, a new railway bridge, Riga Central Passenger Terminal, and other related sites. According to the latest estimates, the total cost of its implementation could reach 888 million euros. The increase in the price of the site is related to changes in technical requirements, design and volume, as well as the indexation of construction costs. The contract for the implementation of works for approximately 430 million euros concluded in 2019 has increased in costs by another 135 million euros at the beginning of 2024. Both the initial contract and its changes were concluded by “*Eiropas dzelzceļa līnijas*” Ltd after the permission of the Ministry of Transport. The permission has been given by the State Secretary of the Ministry or his Deputy.

One of the significant changes in terms of costs in the originally concluded contract is related to changes in the track layout, within the framework of which it was decided to build four Rail Baltica tracks instead of the previously planned two tracks. From the submitted documents, it can be established that the responsible institutions knew before the conclusion of the contract that the Operational Plan under development contained recommendations on the need for at least four tracks in the future (i.e. between 2036 and 2046). Both the Minister of Transport and the State Secretary of the Ministry approved changes in favour of four Rail Baltica tracks.

During the review, it was found that the Ministry of Transport had not forwarded the issue of the development of the construction project of the node of Riga Central Passenger Terminal and the conclusion of the construction works contract to the Cabinet of Ministers for consideration and coordination, as well as the Cabinet of Ministers had not approved the conclusion of the contract and assuming the potential liabilities arising from it, which could exceed the CEF funding allocated to contracts. The Cabinet of Ministers has not been informed and has not coordinated the change orders by which the amount of the original contract was increased.

Similar to the regional stations, several significant changes in the scope of the node of Riga Central Passenger Terminal were forwarded to the Cabinet of Ministers for approval by coordinating the application of the Ministry of Transport for the CEF call and the activities to be applied in it. The auditors find that the Ministry of Transport did not draw the attention of the Cabinet of Ministers in the Informative Report that the activities to be applied for financing were not included or changed the initial scope of the project and also did not provide the

⁶ Letter No 2.3.N/2023-2412 of “*Eiropas dzelzceļa līnijas*” Ltd of 8 Aug 2023 “General budget RBR EDZL-CAPEX calculation” to the Ministry of Transport and information submitted by “*Eiropas dzelzceļa līnijas*” Ltd of 17 April 2024 electronically to the State Audit Office of Latvia.

⁷ Innovation and Networks Executive Agency and “RB RAIL” AS, Ministry of Economics and Communications of the Republic of Estonia, Ministry of Transport of the Republic of Latvia and Ministry of Transport and Communications of the Republic of Lithuania 16.11.2020. Grant Agreement No INEA/CEF/TRAN/M2019/2098304 (CEF 6S).

Cabinet of Ministers with estimates of the related increase in the total project implementation costs.

Estimates of the node of Riga Central Passenger Terminal and the available funding for it obtained during the review are as follows:

Cost estimate 2023/2024 ⁸	Available funding ⁹	Missing funding
888 million euros	317.1 million euros	570.9 million euros

- ❖ **The mainline**, which includes a new, high-speed electrified railway line of European standard gauge, connecting the three Baltic States, is a key element of the Rail Baltica project. The construction costs of its Latvian section have increased approximately seven times since 2017 and, according to the latest estimates, could reach 8.7 billion euros. The fact that the initial (2017) estimates could not be sufficiently accurate is mentioned as one of the reasons for the increase in costs because the Rail Baltica construction design guidelines had not yet been developed and approved at the time of their drafting. The guidelines were approved in 2018 and have been amended more than 100 times since their adoption. The exact impact of the first guidelines and their amendments on the mainline cannot be determined.

The Cabinet of Ministers considered the issue of concluding the contract for the construction of the mainline on 19 December 2023, according to which the costs of the works included in it were planned to be approximately 4.5 billion euros (including VAT). Only after that “*Eiropas dzelzceļa līnijas*” Ltd concluded a contract with the winner of the procurement. At the time of signing the contract, funding was available in the amount of approximately 4.5% of the total amount required for its implementation. The Ministry of Transport gave an assurance that it would undertake obligations within the framework of the specific contract only in accordance with the available funding. The Cabinet of Ministers also took note of the potential liability if the contract was terminated due to the unavailability of funding.

The contract for the construction of the mainline has been concluded at the end of 2023, and the design works under the responsibility of JSC “RB Rail” are being delayed while the situation is being investigated. Active construction work of the mainline has not started, but preparatory work is underway.

The review found that the development of the guidelines governing the scope and technical solutions of the project and their amendments (including the above-mentioned Operational Plan and the Rail Baltica construction design guidelines) was entrusted to JSC “RB Rail” and approved by the Company’s Board. From the explanations provided by the stakeholder institutions, no information was obtained whether and how the guidelines envisaged or their changes were evaluated before their implementation in Latvia to ensure that actions with the available financial resources would be useful, that is, to achieve the goal with the least amount of financial resources and use of property¹⁰.

⁸ Letter No 2.3.N/2024-645 of “*Eiropas dzelzceļa līnijas*” Ltd of 6 February 2024 on the price increase of the works to be performed in the Riga Central Terminal project to the Ministry of Transport; information submitted by “*Eiropas dzelzceļa līnijas*” Ltd of 28 March 2024 and 17 April 2024 electronically to the State Audit Office of Latvia.

⁹ Letter No 2.3.N/2024-867 of “*Eiropas dzelzceļa līnijas*” Ltd of 19 February 2024 on status and costs in the construction of Riga Central and Riga Airport Terminals and adjacent infrastructure to the Ministry of Transport.

¹⁰ Paragraph 1, Section 3 of the Law on the Prevention of Squandering of Financial Resources and Property of a Public Entity.

No conclusions or recommendations are made in the review. However, taking into account that the construction plans of the project approved in the Cabinet Order of 24 August 2016¹¹ have undergone significant changes, the State Audit Office of Latvia wishes to draw the attention of the Cabinet of Ministers to the fact that the procedure for providing information to the government and receiving approval for the new scope of the project and the resulting financial obligations should be evaluated. Among them, one should evaluate which of the Rail Baltica project contracts need to be reviewed by the Cabinet of Ministers, and it should be evaluated whether the current procedure, when significant changes in scope are supported “by default” by supporting activity to be applied in the CEF call, requires improvements.

¹¹ Cabinet Order No 467 on the acceptance of the activity planned for the construction of the Rail Baltica public use railway infrastructure line of European standard gauge of 24 August 2016.