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Review on the Rail Baltica project

Joint review
Tallinn, Riga, Vilnius
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/Signed electronically/

Janar Holm
Auditor General
National Audit Office of Estonia

/Signed electronically/

Edgars Korčagins
Auditor General
State Audit Office of Latvia

/Signed electronically/

Mindaugas Macijauskas
Auditor General
National Audit Office of Lithuania

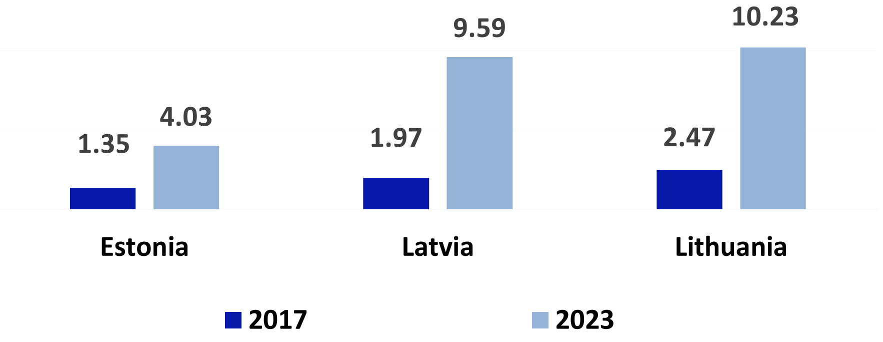
Executive Summary

As the Rail Baltica project is constantly changing,

it is important to remark that this review is based on the information gathered by the Supreme Audit Institutions until the 7th of June 2024.

The estimated costs of implementing the Rail Baltica project has increased more than 4 times. According to new cost benefit analysis draft, since 2017, the estimated preliminary cost of developing the Rail Baltica project has increased from €5.8 bn to €23.8 bn in 2023 (see Figure 1).

Figure 1. Cost increase, in billions of euros



Source: SAIs based on 2017 CBA and new CBA draft

This has increased the risk of securing on-time financing and not only because the estimated costs have increased, but also because the current European Union funding period ends in 2027. As the next funding period will begin in 2028, there will probably be a gap in financing for years 2027-2028. In addition, there is no certainty that the Connecting Europe Facility – which is the main financing tool for the project – will be continued in the upcoming financing period or that its budget or co-financing rate is known at this point[1]. That being said, taking into account the new project budgets in each country and the already allocated funds, there are additional funds in the amounts of €2.7 bn in Estonia, €7.6 bn in Latvia and €8.7 bn in Lithuania needed to complete the project[2].

To reach the project deadline set in the European Union Regulation[3] - 2030 - and manage increased costs Estonia, Latvia and Lithuania have decided to implement the Rail Baltica project in two phases. The delivery of the first phase of the project is expected to be completed in 2030 which is at least five years later than the initial project's schedule which set the deadline for finishing the construction of the railway at the end of 2025. In the first phase the Rail Baltica project will be built in a reduced scope, e.g., local stops are to be built

[1] Information and risks brought out in interviews by the stakeholders.

[2] This considers funds already allocated in CEF Grant Agreements and National Budgets, funds planned in budget strategies and the estimated funds to be allocated in further CEF calls in the 2021-2027 MFF. The sum of all these is deducted from the latest project budget in each country.

[3] Regulation No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network and repealing Decision No 661/2010/EU

later or in minimal functionality, only one set of tracks will be built instead of two in some sections of the railway, etc. This also helps to reduce estimated costs from €4 bn to €3.1 bn in Estonia, from €9.6 to 6.4 bn in Latvia and from €10.2 to 5.4 bn in Lithuania until the year 2030. This means that in the case of implementing the first phase of the project, the additional funding need for the whole project is 10.1 billion euro, being 1.8 billion in Estonia, 4.4 in Latvia and 3.9 in Lithuania.The second phase of the project implementation will take place after trains have started to operate on the railway which is planned to take place in 2031. Currently there is no schedule for the second phase.

Risk management on the entire project level needs further development. The 2019 cooperative audit[4] identified that, although risks had been identified, assessed, and prioritized, a risk management system that would tie the whole project into one, was still under development. Also, the 2019 audit identified that there were no mechanisms for change management on the entire project level. The aforementioned shortcomings still exist, though RB Rail AS has recently developed new risk and change management procedure to improve the situation. This review shows that risk management and change management of RB Rail AS and national implementers in regards to the entire project has not notably improved since 2019 even though an effective risk and change management system could help to keep cost increases under control and to take corrective measures quickly if needed. It was also discovered that the governments and the parliaments were not always informed about the problems that might occur.

The only decision taken by the three Baltic States about infrastructure management is that there will be a separate independent manager in each country. Yet, there is still only interim infrastructure manager in Latvia. Although the implementers – RB Rail AS and national implementers – have developed a plan of action to reach operational readiness by 2030, there is no mechanism to force the responsible ministries to make the decisions more quickly. It was determined that the ministries had not decided on the model for acquiring the trains nor on the entity that was designated responsible for the task. If the decision is not taken soon, there is a risk that there will be no trains to operate on the railway in 2030/2031. Furthermore, the cost of acquiring the trains as well as maintaining and operating the railway are not included in the project budget, and cannot be financed from European Union funds.

[4] 'Implementation of the Rail Baltica project - Is there a plan for financing and a framework in place for procurement and contract management for the implementation of the Rail Baltica project?' Cooperative Audit by the National Audit Office of Estonia, State Audit Office of the Republic of Latvia, and National Audit Office of Lithuania, 2019

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Introduction

1. The Rail Baltica[5] project is the largest cross-border infrastructure project in the history of the three independent Baltic States.

2. Until now the project's main financing source has been the European Union (*hereinafter referred to as the EU*) funding instrument Connecting Europe Facility *(hereinafter referred to as the CEF*) with a financing rate up to 85%. The EU finances each individual CEF project application in accordance with the announced calls, to which both the Rail Baltic project and projects implemented by other EU Member States can apply.

3. The responsibility for the project lies with the Ministry of Climate in Estonia, Ministry of Transport in Latvia and Ministry of Transport and Communications in Lithuania.

4. To coordinate the implementation of the project, the three Baltic countries formed RB Rail AS (*hereinafter referred to as RBR*) with its headquarters in Latvia. The purpose of RBR is to coordinate the project implementation, in addition to performing some of the project activities, such as procuring design works, studies and materials necessary for implementing the project.

5. RBR is owned by state-owned enterprises[6] of each of the three Baltic States – Rail Baltic Estonia OÜ, Eiropas dzelzceļa līnijas SIA and Rail Baltic statyba UAB.

6. In the case of Latvia and Estonia, the shareholders of RBR are also the national project implementers tasked with delivering the railway. In the case of Lithuania, the national project implementer is LTG Infra.

7. The Supreme Audit Institutions *(hereinafter referred to as SAIs)* of Estonia, Latvia and Lithuania have actively monitored the Rail Baltica railway project since 2014, when the Auditor Generals of the Baltic States first discussed the necessity for cooperation and information sharing.

8. On 15th December 2023 the Auditor Generals signed an Agreement among the SAIs of Estonia, Latvia and Lithuania on conducting the Joint Review on the Rail Baltica project. All the previous audits and reviews conducted on this topic by the three SAIs are brought out in Annex A.

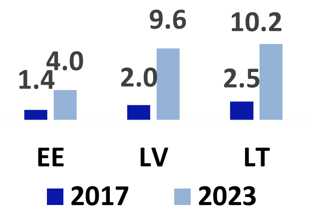
9. The SAIs of Estonia, Latvia and Lithuania sought to provide an overview of the current status of the project, mainly focusing on the budget and schedule of the project, and the decisions on managing and

[5] A new fast conventional and fully interoperable electrified railway line meant for both passenger and freight transport with the maximum design speed of 249 km/h and European standard gauge (1435 mm) on the planned route from Tallinn through Parnu-Riga-Panevezys-Kaunas to Lithuania-Poland border with a connection of Vilnius-Kaunas as a part of the railway.

[6] In the case of Lithuania, the shareholder of RBR is the subsidiary of a state-owned enterprise.

operating the railway. Furthermore, the SAIs looked at the recommendations made in the 2019 audit[7] concerning risk and change management and whether these recommendations had been implemented. Since this is a review and not an audit, the SAIs will not give their opinion on the matter, nor will they issue recommendations. See Annex B for more information about the methodology used in this joint review. Henceforth, the key findings of the SAIs are presented.

Figure 1. Cost increase, in billions of euros



Source: SAIs based on 2017 CBA and new CBA draft

There is still significant uncertainty concerning the budget of the RB project

10. In 2017 the cost-benefit analysis (*hereinafter referred to as CBA*) for the project estimated the cost of the project to be 5.8 billion euros. The latest CBA, which is finished but has not been published as of 7th of June 2024, however, estimates the budget of the entire project at 23.8 billion[8] euros (*see Figure 1*). This means that the budget of the Rail Baltica project has increased more than four times in seven years.

11. Nonetheless, in Estonia, the national implementer – Rail Baltic Estonia OÜ – has estimated that the Estonian part of the project budget is 3.6 billion euros, instead of 4. The company explained that due to the maturity of the project implementation in Estonia, there was no need to include a contingency reserve as big as it has been done in the CBA estimate. In order to have comparable numbers for all three countries, the 2023 CBA estimates for the whole project budget and national budget are used throughout the review, not the one presented by the Estonian national implementer.

Contingency – an event (such as an emergency) that may but is not certain to occur.

Source: Merriam-Webster

12. The main reasons for the budget increase brought out in the materials presented to the SAIs, are:

- More holistic calculations (+9.2 billion euros). For example, technical assessment was incomplete and site investigations were inadequate; the design guidelines were not completed etc in 2017. Also, inflation[9] and contingencies have been updated.
- Changes in project scope (+5.7 billion euros). For example, such additional objects as regional stations were added and improvements to major railway nodes were made (Kaunas node, Riga Airport and Riga Central Station node).
- Other reasons for price increase brought out are external requirements (+1 bn euros) and other changes (+2.2 bn euros).

[7] Cooperative Audit by the National Audit Office of Estonia, State Audit Office of the Republic of Latvia, and National Audit Office of Lithuania, 2019

[8] All sums are without inflation unless specifically stated otherwise.

[9] As the CAPEX estimations were done in 2023 prices, inflation between the years 2017 and 2022, which according to RBR was 40%, are present in all of the price components.

13. In the Review, three objects that were either excluded from the initial scope or have increased in price significantly from each country were selected to characterize the cost increase. The purpose of the table is not to compare the objects or their price in the three countries. See Table 1 for more information.

Table 1. Examples of cost increase and the reasons for the increase, in millions of euros

Object	2017 CBA	2023/24 estimates	Main reasons for cost increase
Estonia			
Mainline construction (213 km)	1 200	2 864	Inflation, changes in requirements, configuration and scope. Changes in Design guidelines.
Construction of Ülemiste and Pärnu passenger terminals	40	261[10]	Increase in project scope: new scope includes works that were not included in the initial budget and works based on additional requirements of local authorities that were not foreseen at the time of preparing the initial budget. New architectural solution.
Regional stations	-	33	Regional stations were not initially included in the scope of the project.
Latvia *(2023/24 estimates include projected inflation)*[11]			
Mainline construction (265 km)	1 240 [12]	8 700	Development and changes in Design Guidelines, additional requirements from other stakeholders, inflation.
Riga central station node: • Passenger Station • Mainline part, design and supervision	• 186 • -[13]	• 259 • 630[14]	Changes in design, scope and technical requirements, indexation. E.g., a new track layout "10+4" (prev. "10+2")[15].
Regional station design and construction	–	102	Regional stations were not initially included in the scope of the project.
Lithuania			
Mainline construction (392 km)	1 650[16]	6 600	Development and changes in Design Guidelines, inflation.
ENE and CCS systems[17]	395	964	Increase the scope of the project, more detailed definition of the technical scope and requirements, inflation.
Regional stations	–	633	Objects were not initially included in the scope of the project.

Source: SAIs from data sent by auditees

[10] 213.1 million euros for Ülemiste and 47.9 million euros for Pärnu terminal.

[11] For more details about all three objects, see SAI Latvia national situation review document on these three sites.

[12] Estimates used from 2017 CBA – Railway, Crossings, Bridges, Noise walls.

[13] In the 2017 CBA RCS mainline part and design were not included in the RCS node estimates, but were included in the estimates of the whole mainline and thus it is not possible to divide them. 186 million euros is only about Riga Central Passenger Station.

[14] From this total amount 557,9 M euro is for RCS mainline part and it is also included in the sum 8,7 B euro assigned to mainline construction.

[15] Includes reconstruction of existing 10 tracks of 1520mm railway plus 4 new Rail Baltica tracks.

[16] Estimates used from 2017 CBA – Railway, Crossings, Bridges, Noise walls. Also, the Vilnius-Kaunas spur (Railway, Crossings, Bridges) is added, as it was assigned to the mainline in the 2023 CBA.

[17] Railway Energy and Command and Control Signalling

14. According to the progress report[18] sent to the European Commission's Directorate General for Mobility and Transport (*hereinafter referred to as DG MOVE*), the Project Parties have found that, considering the availability of funding, or rather the lack thereof, and the project timeline, the project will be separated into phases.

15. The first phase[19] is planned to be completed by 2030 which is the schedule set in the TEN-T Regulation[20] for finishing the railway project.

16. The budget for the first phase is projected to be 3.1. billion euros in Estonia, 6.4 billion in Latvia (not yet approved) and 5.4 billion in Lithuania. The first phase will entail reduced functionality (*See Table 2*).

Table 2. Main changes to the project to be implemented in the 1st phase, by country

EE	LV	LT
One set of tracks instead of two, passageways in stations	One set of tracks instead of two	One set of tracks instead of two in the section Panevėžys to Lithuania/Latvia border
Regional stations will be scaled down to minimum functionality	Only three regional stations will be built in the first phase	The number of regional stations will be scaled down to a couple of stations
Some viaducts will be left out of the project scope in the first phase	No cargo terminals will be built in the first phase	

Source: SAIs according to data sent by auditees

17. The timeline for the second phase of the project is unknown and, according to the Project Parties, this also pertains to sources of financing *(for more information regarding financing see paragraphs 24-37)*. According to interviews, the works planned for the second phase will be done when financing for them becomes available from any source, be it the EU funds, national budgets, public-private partnerships, or loans. The Estonian national implementer – Rail Baltic Estonia OÜ – added that the second phase would only be implemented in Estonia when deemed economically viable. The company stated that national implementers in each country would decide to make the necessary investments if and when there was a need for further capacity on the railway.

Not all project costs are included in the budget estimates

18. Although regional stations have been included in the project budget in the new CBA, there are still costs that are left out, as the current

[18] Progress Report – Commission Implementing Decision of 26.10.2018 on the Rail Baltica cross-border project on the North Sea-Baltic Core Network Corridor', March 2024, Ministry of Climate of Estonia, Ministry of Transport of Latvia, Ministry of Transport and Communications of Lithuania.

[19] Unless a certain phase is referred to, the Rail Baltica project will entail the entire project.

[20] Regulation No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network and repealing Decision No 661/2010/EU

project budget only includes the cost of the project until the end of construction: everything else is excluded from the project budget.

19. This means that all operation and maintenance costs that occur after the construction phase when the railway starts operating are not included to the project budget. See Table 3 for costs of operating and maintaining the railway according to the newest Business Plan.

Table 3. Annual average subsidy needs for operating the railway*, in millions of euros.

Cross financing – allocating the surplus from one category to the other, e.g. passenger transport can be cross-financed from the surplus made from freight operations.

Source: Business Plan draft

	EE	LV	LT	Total
With cross-financing	62	211	208	481
Without	89	246	263	599

* Subsidy levels include depreciation cost and operating expenditures

Source: Business Plan draft

20. It is also important to note that, according to the EU financing rules, operating and maintenance costs – approximately 500 million euros annually – cannot be financed from the EU funds meaning that these funds should be allocated in the national budgets of the Baltic States.

21. In addition, the project budget does not include the costs associated with trains needed to start operating the railway, either for international or regional passenger transport. As of Summer 2024, the Project Parties have not yet decided whether the three countries will own the international trains, lease them or require the passenger operators to have their own trains. Besides, project parties have not estimated how much these trains might cost.

22. Nonetheless, according to the Ministry of Transport of Latvia, approximately 23-25 regional trains are needed in the Baltics with an estimated cost of 300 million euros. As of Summer 2024, none of the three countries has yet to start the procurement of these trains or decided on an alternative approach. In the case of Lithuania, the operator is conducting a market consultation regarding the procurement of new 1 435 mm rolling stock for the railway infrastructure.

The main risk of the project is the lack of funding at the time needed

23. As the project budget has increased significantly, it is important to establish potential sources of financing. Thus far, the project has been mainly financed from national budgets and EU funds. With the increased budget, however, the Project Parties have also analysed alternative sources. For instance, Lithuania plans to establish a fund dedicated to

financing transport sector development from public and private funding sources.

24. Increased financing from national budgets by taking a state loan has been deemed as the most viable alternative funding opportunity by the Project Parties. When taking a loan, the countries must take into consideration the Stability and Growth Pact, including criteria for general government budget deficit and debt. The general government budget deficit must not be above 3 percent and the debt must not exceed 60 percent of the gross domestic product (GDP). Additionally, countries must comply with the fiscal rules set out in the national legislation.

25. In Estonia, the general government budget deficit is already above the acceptable level (3.4 percent of GDP in 2023) and, according to the Ministry of Finance, will increase to 5.3 percent of GDP by 2025. In Latvia, according to the Eurostat the general government budget deficit in 2023 was 2.2 percent of GDP and the Ministry of Finance forecasted deficit for 2025 is 2.7 percent[21] of GDP. In Lithuania, the general government budget deficit is below the acceptable level (actual value was 0.8 percent of GDP in 2023[22]) and, in the 2024 national budget, it is predicted that the general government budget deficit will increase to 2.5 percent of GDP by 2025.

26. In 2023, the general government debt was 19.6 percent[23] of the GDP in Estonia and is projected to increase to 24.9 percent in 2025[24]. In Latvia, according to the Eurostat the general government debt in 2023 was 43.6 percent of the GDP and is projected to increase to 46.3 percent of GDP in 2025[25]. In Lithuania, the general government debt was 38.3 percent of GDP in 2023[26] and is projected to increase to 43 percent of GDP in 2025.

27. As the current EU budgetary period or Multiannual Financial Framework (*hereinafter referred to as MFF*) is 2021-2027 and the new MFF starts in 2028, according to the Project Parties, taking a loan is particularly topical for the years 2026-28 since grants are normally not awarded in the first year of a new MFF. This means that there will be a gap in the financing from the CEF during this period. As the project is under tight time restrictions and this will be the period of rapid construction works, the gap must be filled.

28. Also, the funds needed to finance the increase of the budget are not accounted for in the budgetary strategies of any of the three Baltic

[21] Stability Programme of Latvia 2024-2028.
[22] Official Statistics Portal
[23] According to national statistics.
[24] According to the 2024 Stability Programme
[25] Stability Programme of Latvia 2024-2028.
[26] Official Statistics Portal

States, despite the fact that the current budget strategies already cover the years 2026-2027[27].

29. The Ministries of Finance in Estonia, Latvia and Lithuania have not been directly involved in mobilising funding for implementation of the Rail Baltica project and they did not have the most up-to-date information. For example, the Ministry of Finance mainly oversees the use of CEF funds and the related state co-financing in Latvia but until 2024 it was still operating with the outdated project budget from the 2017 CBA which was provided by the Ministry of Transport.

30. In Estonia, the Ministry of Finance is slightly more involved in the project but they still stated that they had no calculations from the Ministry of Climate about the amount of money that was still needed for the completion of the project. To include the necessary funds in the next budget strategy, the Ministry of Finance needs these numbers by August 2024 in Estonia.

31. In Lithuania, the Ministry of Finance stated that it did not have data from the Ministry of Transport and Communications on how much the whole project budget had increased and calculations on how much funds were still needed for project implementation. In May 2024, though, the need for state budget funds of more than 2.8 billion euros was submitted to the Ministry of Finance to implement the activities of the project in 2025-2027.

32. Furthermore, since the negotiations among the EU Member States concerning the 2028-2034 MFF will start in 2025, there is no certainty that the CEF will continue beyond 2027 at all or how much money will be available if it continues and what will be co-financing rate.

33. According to DG MOVE, it is of utmost importance that the Project Parties attain as much funding as possible from the 2021-2027 MFF. Since the core network of the TEN-T needs to be finalized by 2030, all big projects will be seeking financing from the first calls of the 2028-2034 MFF, which will mean greater competition for the available funds.

34. As of February 2024, approximately 2.3 billion euros has been allocated to the project from the CEF and another 1.9 billion euros is estimated from application rounds in the 2021–2027 MFF (*See also Table 4*).

[27] Except for Lithuania where the current budget strategy is for the years 2024-2026.

Table 4. Received and estimated funding since 2014 by sources and additional funding needed, in millions of euros

Budget	**4 028**	**9 587**	**10 233**		**23 848**
Source	EE	LV	LT	RBR	Total
Allocated funding from the CEF	519	796	839	140	2 294
Estimated from the CEF, 2021–2027 MFF	512	834	533		1 879
Received from national budget	23	227	22		272
Estimated from national budget[28]	184	113	109		406
Other sources[29]	86				86
Additional funding needed	**2 704**	**7 617**	**8 730**		**18 911**

Source: SAIs based on data sent by auditees

35. In the case of implementing the first phase of the project, the additional funding need for the whole project is 10.1 billion euro, being 1.8 billion in Estonia, 4.4 in Latvia and 3.9 in Lithuania.

36. Also, in addition to timely funding being fundamental to finishing the project on schedule, delays can also lead to the funds allocated from CEF becoming ineligible. In each CEF agreement, the maximum amount of EU contribution is brought out. There is also a specified time, by which the funds must be used, and if the schedule is not met, the funds become ineligible meaning that the governments will probably need to pay those expenses themselves and there will be unabsorbed CEF funding. According to the CEF regulation[30], there is even a possibility that the European Commission could request to return the already spent financing in case full scope is not delivered within 2 years after the completion date of the actions. This could possibly apply to Latvia, where according to the information provided by RBR, the design works will be completed only at the end of 2027.

37. As of March 2024, according to the estimates of the national implementer Rail Baltic Estonia OÜ, 8 million euros, which is 1.4% of all the funds allocated under the CEF agreements, is at risk of being ineligible in Estonia if not invested during the eligibility period. In

[28] Budget strategies in Estonia is for the years 2024-27 and 2024-26 in Lithuania and Latvia.

[29] From the EU Structural Funds and the Recovery and Resilience Facility.

[30] Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/2010 Article 12.

Latvia, this sum is 4 million euros according to RBR's estimates and additional to that The Ministry of Transport of Latvia informed that 44.8 million euro from the national budget will be needed to complete the ongoing activities. In Lithuania, the national implementer, LTG Infra has estimated that 71.5 million euros are at risk of becoming ineligible[31] and provided the risk management measures[32].

The project is at least five years behind schedule

38. Even the delivery of the first phase of the project is expected to be completed at least five years later than the initial project's schedule agreed in the 2017 Intergovernmental Agreement[33]. The agreement which was signed by the governments and ratified by the Parliaments of the three Baltic States sets the deadline for finishing the construction of the railway at the end of 2025.

39. According to the Project Parties, the deadline for finishing the first phase of the railway is currently 2030. This means that by the end of 2030 the mainline of the railway connecting Tallinn, Riga, Kaunas and Poland should be ready and could start operating in 2031.

40. Nevertheless, some of the internal project schedules indicate that the project may be delayed even further. For example, according to the Integrated Control Schedule of Rail Baltic Estonia OÜ, the Pärnu-Latvian border section will be fully finished in October 2032 with construction ending at the end of 2031. Yet, Rail Baltic Estonia OÜ stated that they had taken measures to ensure that those works would also be finished by 2030.

41. Representatives of DG MOVE stated that the performance of the Rail Baltica project is budget and timeline wise comparable to the other big TEN-T railway projects that receive CEF funding.

42. DG MOVE also stated that the deadline for completing the project in the TEN-T Regulation is 2030. The project should therefore be completed by that deadline or as close as possible to that deadline. DG MOVE did emphasize, that the target remains that the mainline of the Rail Baltica should be fully operational sooner.

[31] Only negative factors that increase or may increase this risk in the future are taken into account. The positive factors that could be achieved through the implementation of the measures being considered and developed for the management of this risk are taken into account only after they have been implemented. It means that the final sum of ineligible costs should be lower than the current estimates, after risk mitigation measures have been enforced.

[32] Planned or implemented the risk management measures: pre-purchase of building materials; redistribution of funds between activities; use of funds in 2025 according to the mechanism agreed with the European Commission agency; changes in activity scopes/activity indicators.

[33] Agreement between the Government of the Republic of Latvia, the Government of the Republic of Estonia, and the Government of the Republic of Lithuania on the Development of the Rail Baltic/Rail Baltica Railway Connection, 2017.

Detailed technical designs and land acquisition are yet to be finalized

43. The main reason for the delays, as pointed out in the interviews and documents sent by the auditees, is the delay in the detailed technical design (DTD), responsibility of RBR. Although, according to the European Commission's Implementing Decision[34] the deadline for concluding the detailed technical designs was the end of 2020 in both Lithuania[35] and Estonia, and end of 2021 in Latvia, as of February 2024, the designs have still not been finalized (*see also Table 5*).

44. According to the current schedule, the detailed technical designs should be finished by the end of June 2026 in Lithuania, the end of September 2026 in Estonia, and the end of 2027 in Latvia.

45. The delays in the design process and territorial planning are also the main reason why land acquisition has been delayed. Despite the fact that, according to the European Commission's Implementing Decision, land acquisition should have been finished by the end of 2021[36], as of February 2024, the countries are not even halfway done (*see Table 5*).

Table 5. Progress of DTDs and land acquisition by country (as of February 2024), in percentages*

	EE	LV	LT
Detailed technical design	66.5	53.8	14.5
Land acquisition	45	13[37]	30

* Provided figures concerning progress of detailed technical design and land acquisition should not be used for comparison purposes due to differences in the legal framework of the Baltic States on design and construction process.

Source: SAIs according to data submitted by auditees

46. The reviewed documents stated the reasons for the delays in completing the detailed technical designs as the consultants' incapacity to ensure full compliance with the designs' technical requirements and underestimation of the complexity of the project.

47. The Project Parties also stated that designs were delayed because of the multiple updates of the design guidelines that changed the design scope, COVID-19 pandemic restrictions and RBR's insufficient resources for reviews. Nevertheless, the number of employees has increased in the

[34] Commission Implementing Decision (EU) 2018/1723 of 26 October 2018 on the Rail Baltica cross-border project on the North Sea-Baltic Core Network Corridor

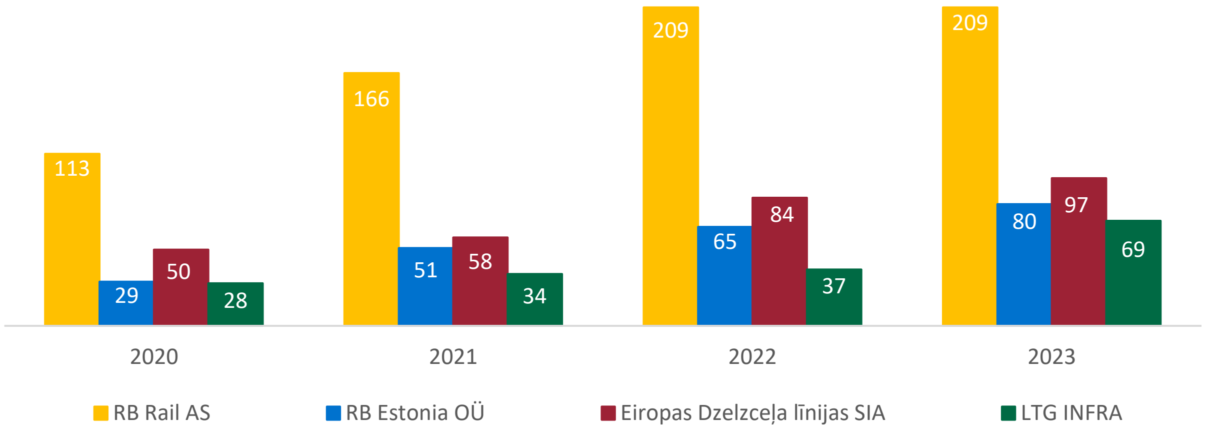
[35] Except Kaunas sections Kaunas to Vilnius and from Kaunas to Lithuania/Poland state border.

[36] Except from Kaunas to Vilnius and from Kaunas to Lithuania/Poland state border where land acquisition is planned until the end of 2023.

[37] As of February 2024, 13% has been acquired and 41% is in process. Compared to 2019, the number of properties to be acquired in Latvia has increased by 42% and can still be clarified within the design process.

years 2020-2023. See Figure 2 for personnel resources within the project implementers.

Figure 2. Number of employees in the companies implementing the project, calculated in numbers of full-time positions[38]



Source: SAIs based on fiscal year reports and data sent by auditees

RB project risk and change management system has yet to be implemented

48. Taking into consideration that the main risks that affect the project are those related to financing which also affect the project performance timewise, and that the project budget has already increased significantly, and a tight schedule must be maintained to finish the project in time, a functioning risk and change management system is essential as it helps to mitigate the risk of cost increases.

49. The 2019 cooperative audit identified that, despite the fact that risks had been identified, assessed, and prioritized, a risk management system that would tie the whole project into one, was still under development. In this review, the SAIs sought to verify whether the recommendations made in the 2019 audit were implemented.

Risk management on the entire project level needs further development

50. Risk management of the entire project has not improved notably since 2019. Although the delay and budget increase risks have realized, RBR together with national ministries and implementers have partly

[38] In each country there are some more employees working on the project in either other companies or ministries. In the case of LTG Infra, the number of employees for years 2020-21 is an estimate as the employees working on this particular project could not be separated.

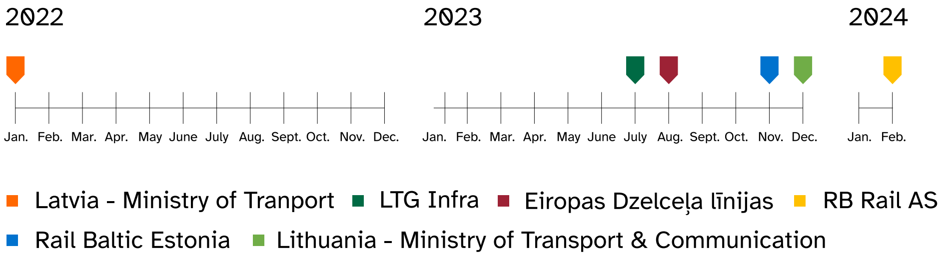
implemented the recommendations of the previous audit report from 2019.

51. For example, SAIs recommended the creation of a unified risk management system for the whole project, but, five years later – it is still under development.

52. Also, RBR's internal audit[39] concluded that there was no mechanism for reporting extraordinary risks or realized risks and there was no agreement among the Project Parties on how to consolidate the risks of the entire project.

53. Furthermore, although RBR is the risk coordinator for the entire project and has purchased a risk management system called Primavera which cost 120 220 euros and that all Project Parties should use, the SAIs found that it was not used on a regular basis by most. Some of the institutions do not even have the licenses to use it, e.g., the Ministry of Climate of Estonia, and even of those that have licenses, some last logged in two years ago, e.g., the Ministry of Transport of Latvia. See also Figure 3.

Figure 1. Last log-in onto the Primavera risk management system



Source: SAIs according to Primavera log-in data.

54. The SAIs also recommended that the ministries should ensure that the descriptions of risks and the mitigation measures brought out were precise enough for various decision makers to understand the gravity of the risks and take proper action. Nevertheless, mitigation measures are still, in the majority, rather vague.

55. An example of a mitigation measure reflected in risk matrices and plans is communication among the Project Parties. Although communication is extremely important in multi-party projects, without an added outcome of the perceived communication, there is little hope for mitigating risks concerning project financing and delays.

Change management is still a work in progress

56. The 2019 Cooperative audit also identified that there were no mechanisms for change management on the entire project level. This

[39] RBR's internal audit service's risk management audit report, 2023.

includes managing changes to the budget and schedule of the entire project.

57. Though RBR has recently adopted various risk and change management procedures, this time around, the SAIs still found that the change management system was still not working successfully since there still was no clear procedure for managing changes on the entire project level. For example, RBR stated that there were problems with communication meaning that information about risks realized within each country was not promptly communicated to other Project Parties that might be affected by the risks.

58. The Project Parties also pointed out that the project was managed on a contract basis in the past meaning that mainly delivery of contracts was monitored and there was no broader view about how changes in a contract affected the entire project.

59. However, the Project Parties are now moving towards a project management approach which means that there are several project managers who supervise the delivery of certain sections or sites, and they are responsible for all the contracts that fall under that project. They should also be aware of all the risks and all the changes that occur and/or need to be made and how these changes affect the entire project. According to the Project Parties, the new system will hopefully also help improve communication among the Project Parties.

60. Furthermore, in the new Project Management Agreement, which was concluded in the beginning of 2024 and which defines the roles and responsibilities among RBR and national implementers more clearly, both the risk management procedure and change management guidelines are set in the agreement as responsibilities for RBR to develop.

61. The new agreement also states that RBR shall develop the procedures and implement the tools to be applied across the project in the following areas:

- Planning and scheduling,
- Cost control,
- Management reporting system.

Governments and parliaments are not always informed about the problems occurring

62. As the project has significantly increased in its scope and costs, it has encountered delays and it is time to make important decisions about its future management, it is essential that this information is

presented to the national governments and parliaments that need to make these decisions regularly and in a timely manner.

63. Although, in Estonia the government has been informed of the project budget increase, delays and phasing the project into two phases, this has not been the case everywhere.

64. In Latvia, the Rail Baltica issue has been on the government's agenda, because the government approves activities in each CEF and Military Mobility application. In spite of this, the government has not been properly involved in approving scope changes[40]. For example, including regional stations in the scope of the project.

65. In Lithuania, reporting to the government is done through monthly progress reports and ad hoc meetings where specific issues are presented. When strategic issues of the project must be addressed, the questions are presented at the Government Strategic Projects Portfolio Commission. The project phasing and new CBA (2023) figures of cost estimates have not been formally submitted to the government or parliament as of May 2024 and no decision on the topic has been made. According to the Lithuanian ministry, the reason for this is that the figures in the new CBA are not yet final. The new budget is being discussed in closed formats of the government.

66. Although, Estonia and Lithuania have regular[41] reporting to their parliaments in place, the topic has been discussed only once in Latvia in the period of 2021-2023.

The decision on the operating and management model for the railway has not been concluded

67. As of summer 2024, the only decision taken by the three Baltic States about infrastructure management is that there will be a separate independent manager in each country. In Estonia and Lithuania, the national implementers – Rail Baltic Estonia OÜ and LTG Infra – have been designated as the future railway managers.

68. Whereas no decision has been made in this regard in Latvia, the national implementer - Eiropas dzelzceļa līnijas SIA – has been tasked to act as an interim infrastructure manager until the decision is made. The selection of the Rail Baltica infrastructure manager is deemed a political decision in Latvia. It is not clear what the latest deadline for

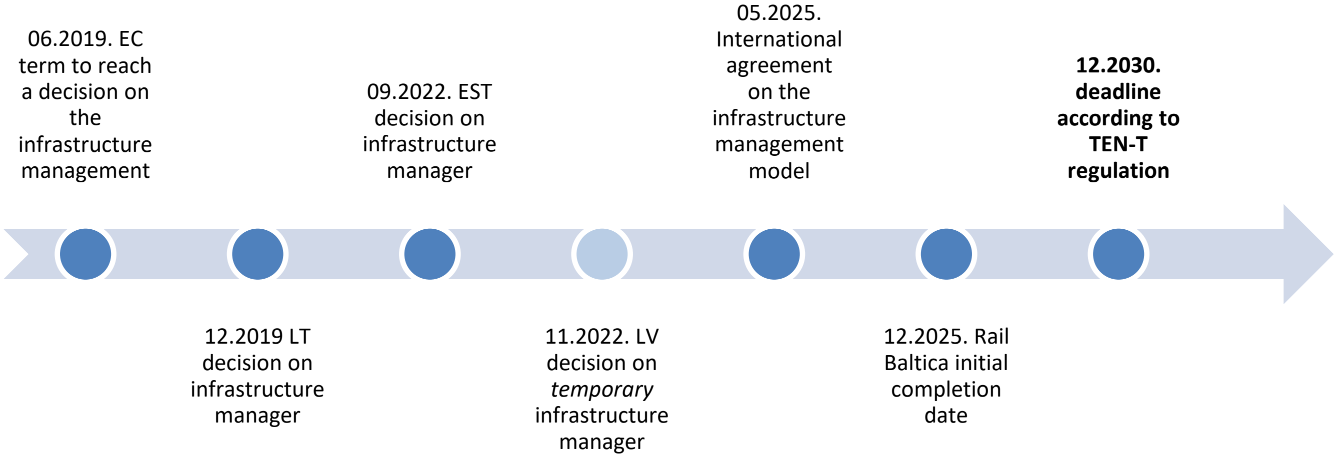
[40] For more details see SAI Latvia national situation review document.

[41] In Lithuania, reports are made to the European Affairs Committee of the Parliament at least once every six months. In Estonia, an annual project report is presented to the Parliament.

this decision in Latvia is, although stakeholders indicated that it should be made in 2024.

69. Although, according to the European Commission's Implementing Decision, the deadline for deciding on an infrastructure management model was 2019, currently, the deadline[42] for reaching this decision is May 2025 when the governments of the three Baltic States are to reach the decision that stipulates the roles and responsibilities of the Project Parties and the principles for managing the railway, including how profits and losses will be divided, conflicts resolved, etc. See Figure 4 for more details about the decision-making process.

Figure 4. Process of deciding on an infrastructure management model



Source: SAIs according to data sent by auditees

70. There is also no mechanism for the implementers – RBR and national implementers – to force the responsible ministries to make the decisions that are needed. For example, the implementers concluded an Operational Readiness Study in 2023 that brought out all the activities that should be done, who needed to do them and by when they should have been done for the railway to be operational. The responsible ministries of the three countries also met in October 2023 and agreed to follow the Operational Readiness Study.

71. Nevertheless, as of the beginning of 2024, one activity should have been completed, id est, the decision on how to acquire a rolling stock. This activity is marked as the responsibility of an external stakeholder (i.e., an entity that covers the three countries and does not yet exist) and the accountability of the three ministries.

[42] Operational Readiness Study, see point 68.

72. The ministries have not decided how the international trains should be acquired – leased, owned or the passenger operators will be required to have their own trains. If the decision is not taken soon, there is a risk that there will be no trains to operate on the railway in 2030/2031. According to the Study, starting from the decision, it takes two years to prepare procurement, four years to deliver the rolling stock and two years testing time –eight years in total.

RB Rail AS’s future role has not been decided

73. So far, the shareholders of RB Rail AS have taken the decision that the company will not continue as the infrastructure manager of the finished Rail Baltica railway after the completion of the Rail Baltica project. It is not clear, however, whether the company will continue to exist to serve some other purpose or how it would be financed.

74. According to RB Rail AS's Management Board, the company will continue operating at least until the whole project is finalized. This means that the company will coordinate the project even after 2030 when the railway is operational to oversee the so-called second phase of the project. Nonetheless, it is not yet known how long the second phase will last or from where the funding for it will come.

75. According to RB Rail AS’s Supervisory Board, the future role of the RB Rail AS shall be decided by the three responsible ministries. The Supervisory Board stated that different options were plausible, as the company might:

- Continue to act as the competence centre for any future pan-Baltic projects,
- Be assigned certain roles related to the contracting of public service obligations or acquisition/maintenance of rolling stock in case the Baltic States decide to acquire rolling stock from public funds or jointly,
- Close its operations.

As of May 2024, there is no timeframe set for reaching such a decision.

Annex A. Previous audit work on the topic of Rail Baltica

Cooperative audits	
2019	'Implementation of the Rail Baltica project - Is there a plan for financing and a framework in place for procurement and contract management for the implementation of the Rail Baltica project?'
SAI Estonia	
2017	'National Audit Office's overview of the agreement between the governments of Estonia, Latvia and Lithuania for the development of the Rail Baltic/Rail Baltica rail connection'
2021	'Interim review of the implementation of Rail Baltic'
SAI Latvia	
2020	'Is the Rail Baltica Project Governance Effective in Latvia?'
SAI Lithuania	
2016	'Economic Projects of National Significance'
2018	'Management of the Public Railway Infrastructure'

Annex B. Methodology

The Supreme Audit Institutions of Estonia, Latvia and Lithuania investigated the implementation of the Rail Baltica project on both the national level and international level. For that, the Supreme Audit Institutions developed a questionnaire which was used to gather information about the progress of the project in each country. The review questions were as follows:

1. What is the current estimated budget of the Rail Baltica project and have the responsible ministries decided on the long-term financing of the finished railway?
   1.1. What is the current estimated budget of the Rail Baltica project?
   1.2. What are the main financing risks which might affect the completion of the project and how are they mitigated?
2. What is the Rail Baltica project's estimated completion date?
   2.1. How long is the delay compared to the agreed-upon timeline in the International Agreement?
   2.2. What are the main schedule risks which might affect the completion of the project and how are they mitigated?
3. How do the responsible ministries plan on managing and operating the finished railway?
   3.1. What is the status of agreeing on the principles for infrastructure management?
   3.2. What is the status of agreeing on the principles of cooperation once the railway is operational?

As this was a review and not an audit, there were no criteria, and the goal of the SAIs was to collect and present important information concerning the project. The progress of implementing the project within each country was assessed by each SAI individually but the review was written jointly based on the information gathered from document review and interviews conducted in each country.

Table 1. Interviews conducted in the course of the joint review

Interviewee	Date of interview
RB Rail AS	06.02.2024
RB Rail AS	07.02.2024
RB Rail AS, Management Board	19.02.2024
RB Rail AS, Supervisory Board	23.02.2024
DG MOVE	27.02.2024
Interviews by SAI Estonia	
Rail Baltic Estonia OÜ	04.01.2024
Ministry of Climate	09.01.2024
Ministry of Finance	28.03.2024
Interviews by SAI Latvia	
SIA “Eiropas dzelzceļa līnijas”	08.01.2024
	16.01.2024

	17.01.2024
	09.02.2024
	22.03.2024
Ministry of Finance, EU Funds Audit Department	18.01.2024
Ministry of Transport	09.01.2024
	30.01.2024
	14.02.2024
	28.02.2024
AS “LatRailNet”	14.02.2024
VAS “Latvijas dzelzceļš”	21.02.2024
Ministry of Finance	06.03.2024
Interviews by SAI Lithuania	
AB “LTG Infra“	13.02.2024
	14.02.2024
Ministry of Transport and Communications	14.02.2024
RB Rail AS Lithuanian Branch	15.03.2024
Ministry of Transport and Communications, AB “Lietuvos geležinkeliai”, AB “LTG Infra“	09.05.2024

Documents analysed in the course of the review:

- CEF Grant Agreements and Action Status Reports
- Rail Baltica Global Project Cost-Benefit Analysis Final Report, 30.04.2017 and latest drafts of the new CBA and Busniess Plan to be pusblished in 2024
- National budgets and budgetary strategies of the Baltic States
- Reports by national implementers, RB Rail AS and responsible ministries about the progress of the project
- Internal audit reports and external audit reports concerning RB Rail AS and national implementers
- Governance rules and regulations of RB Rail AS and national implementers
- Risk matrices of the RB Rail AS and national implementers, documents related to mitigation measures planned or taken and risk management system audit records
- Meeting minutes of the management and supervisory boards of RB Rail AS and national implementers
- Project budget and timeline documents of RB Rail AS and national implementers
- Agreements, plans, studies and progress reports concerning infrastructure management and operation

Table 2. Members of the review team

Steering Committee		
Audit institution	Name	Position
SAI Estonia	Ines Metsalu-Nurminen	Director of Audit Department
SAI Latvia	Inese Kalvāne	Director of 1st Audit Department and Council Member of SAI Latvia
SAI Lithuania	Lina Balėnaitė	Deputy Auditor General
Team members		
SAI Estonia	Silver Jakobson	Audit Manager of Audit Department (the coordinator of the cooperative audit)
	Kristiina Visnapuu	Auditor
	Silja Einberg	Auditor
SAI Latvia	Larisa Reine	Head of Sector
	Baiba Amoliņa	Senior State Auditor Lawyer
	Laila Kikuste	Senior Auditor
	Eva Vorona	Auditor
	Inga Briede	Auditor
SAI Lithuania	Eglė Merkininkienė	Head of Department
	Eivida Šlamė	Principal Auditor - Audit Team Leader
	Ramunė Marcikonytė	Principal Auditor
	Vytenis Žukas	Principal Auditor