Conclusions of the National Audit Office

Socio-economic feasibility calculations of transport infrastructure projects

Transport policy and the functioning of Finland's transport system have been identified as important prerequisites for competitiveness and economic growth in many central government strategy documents. This audit is one of two audits in which the transport policy measures aimed at ensuring a good operating environment for business operators are discussed. The aim of the audits was to determine how the economic impacts of the major decisions supporting economic growth taken by Finland's transport administration could be assessed and managed in a better manner. The main focus in this audit was on the feasibility calculations of the large and medium-sized transport infrastructure projects carried out by the state and the practices for managing their feasibility. The aim was to ensure that the project assessment guidelines have been appropriately developed and that the audited project assessments have been carried out in accordance with the guidelines.

The Finnish Transport Agency has systematically prepared and updated assessment guidelines for transport infrastructure projects

Over the past few years, the Finnish Transport Agency has prepared comprehensive project assessment guidelines for transport infrastructure projects and updated them on a regular basis. When preparing the guidelines, the Finnish Transport Agency has followed international practices and trends. The results of the cost-benefit calculations made on the basis of the guidelines have been used to describe the socio-economic feasibility of a number of transport infrastructure projects proposed in the state budget. The procedure has improved the knowledge base of the decision-making process.

There is room for improvement in the project assessment guidelines

Over the past few years, there have been efforts to improve the assessment of transport infrastructure projects so that better consideration could be given to the broad-ranging socio-economic impacts of the projects and the modes of communications and transport of the future. According to the audit results, there should be more awareness of how extensively the direct economic benefits brought by transport infrastructure projects to different capital circles, such as companies providing transport services and parties using such services, can also be considered as benefits to society at large. It is also important to develop and model the "user pays" principle and prepare guidelines for this approach as it has similarities with the socio-economic feasibility assessments of transport infrastructure projects and is relevant to feasibility management.

The practical problem in project assessments is that socio-economic feasibility assessments must often be simplified and restricted in scope because of time constraints, costs and uncertain impacts. This may make the assessments less reliable or give too narrow a picture of a project's feasibility.

There is room for improvement in the post-completion follow-up of the actual transport volumes

The Finnish Transport Agency does not have any systematic quality assurance method for project assessment and there are few transport economists in Finland specialising in this field. This makes socio-economic feasibility assessments more prone to reliability risks.

Realisation of the cost-benefit ratios presented in the project assessments greatly depends on the composition and volumes of the traffic forecast in the calculations. According to the audit findings, the methods used by the Finnish Transport Agency for post-completion follow-up of the actual traffic volumes are not as comprehensive and well-developed as the agency's methods for monitoring such issues as project costs.

A more comprehensive follow-up would help to produce a better picture of the accuracy of the estimates made during the planning stage. The follow-up information could also be used to ensure and improve the quality of project assessments in new transport infrastructure projects. A comprehensive follow-up of the accuracy of traffic forecasts would also in other respects reduce the risk of excessively optimistic forecasts and the risk of failed state investments.

The audited project assessments had been carried out in accordance with the assessment guidelines issued by Finland's transport administration

The auditors reviewed the project assessments of four transport infrastructure projects in which the main aim is to facilitate industrial transports or make them more efficient. These assessments had been carried out after the introduction of the new general project assessment guidelines in 2011. According to the audit results, the assessments had in most respects been made in accordance with the guidelines. The audited projects can be characterised as fairly straightforward improvements of the existing transport infrastructure.

Most of the benefits shown by the cost-benefit calculations of these projects were in the form of lower freight train operating costs and lower vessel costs. This suggests that in the cost-benefit calculations, there has been more focus on the interests of transport operators than on other impacts. However, there is no detailed information on how extensively the benefits enjoyed by transport service providers are transferred to the parties using the services and to society at large.

Not all transport infrastructure projects selected for implementation have been subjected to project assessment as laid down in the guidelines

Producing project assessments in accordance with the guidelines is not a statutory requirement. According to the audit findings, after the issuing of the new project assessment guidelines, Parliament has approved several transport infrastructure projects as part of the state budget without any project assessment that would be in accordance with the guidelines or any other systematic thinking. This means that the grounds for carrying out these projects given in the state budget are of little help in determining whether the selected projects are the most feasible option in terms of socio-economic impacts.

Recommendations of the National Audit Office

1. The Finnish transport administration should produce socio-economic feasibility assessments of all transport infrastructure projects included in the state budget using generally accepted systematic models. If it is decided to carry out a transport infrastructure project that is judged as non-feasible in terms of its socio-economic impacts, there should be clear and transparent justification for the decision.
2. The Finnish Transport Agency should have more comprehensive practices for monitoring the accuracy of socio-economic feasibility assessments of transport infrastructure projects. This would provide a better picture of the reliability of the assessments made during project planning and reduce the risk of failed state investments.