

# Conclusions and recommendations of the National Audit Office

## Project companies in the planning of rail investments

The audit examined, from the perspective of central government finances, the prerequisites for efficient operations when the project company (special purpose entity) model is applied as the organisation and funding form at the planning phase of railway investments. The audit was targeted at the project company model in the operations of three special purpose entities set up as limited liability companies. These companies are Turku One Hour Train Ltd, Suomi-rata Oy and Itärata Oy, established in the period 2020–2022. The task of the companies was to design a fast rail connection in the Helsinki–Turku, Helsinki–Tampere and Helsinki–Porvoo–Kouvola sections until the construction phase. The ownership share of the central government of these companies is 51 per cent.

Applying the project company model in this way is a new practice in Finland aimed at supplementing direct central government budget funding in the planning and construction of transport infrastructure. A further aim is to safeguard long-term funding for rail planning beyond individual government terms. The audit provides the Parliament and the transport infrastructure administration with information, from the perspective of central government finances, on the risks and opportunities associated with applying the project company model. This information can be used as a basis for decisions on the future of special purpose entities, to support the operations and ownership steering of existing special purpose entities, and to develop the role and practices of the transport infrastructure administration.

The audit examined how well the application of the project company model and the organisation of the special purpose entities support the achievement of the goals set for the operations of the companies and the appropriateness and efficiency of the operations. The audit also assessed whether the operating practices used by the special purpose companies promote risk management and accountability and examined the legality of the procurement by one project company.

## The use of the project company model as the the funding and organisation form for the planning of railway projects should be carefully considered and its possible selection should be justified transparently

The audit showed that, from the perspective of central government finances, the project company model is not a recommended organisation and funding form in the planning of large railway projects that cannot be completely disconnected from the national transport network. Although the planning task and role of the

special purpose entities had been clearly defined, there was room for interpretation in their task descriptions.

The audit also revealed that the companies had not been organised in accordance with the Ministry of Finance guidelines on the establishment of state-owned companies<sup>i</sup>, and Finland's legislation does not recognise a project company as a planner of the state-owned railway network. During the audit, it was noted that the municipalities serving as shareholders in the special purpose entities may also expect their shareholding to bring such benefits that are unlikely or even unrealistic. It was also found in the audit that the planning carried out by the special purpose entities has resulted in a need for additional planning in other parts of the transport network not included in the tasks determined in the project company's articles of association. The special purpose entities are also vulnerable due to their small organisation. In its previous audit, the National Audit Office expressed its view that the main reason for using the company form may not be the opportunity to operate outside the spending limits or to capitalise the company by rapidly selling the stocks owned by the state or another state-owned company<sup>ii</sup>. The National Audit Office has also previously considered that the provision of a public service as business operations is not justified<sup>iii</sup>, if the profits of said business do not cover the costs of the activities.

In the preparation phase of large railway projects, the purpose of applying the model appears to have been to promote large railway projects on a long-term basis without restrictions imposed by the budget. The strength of the project company has been considered to lie in the fact that, when the entities were established, they were granted funding for the entire planning phase. However, during the audit, it was found that this funding may also be subject to changes or cancelled, as was the case after the 2023 parliamentary elections due to a change in the composition of the Government and new policy lines on the funding of the special purpose entities in the Government Programme. As a result, the goal set for the project company model to safeguard long-term funding for the planning of large railway projects beyond parliamentary terms was not achieved in the case of all the special purpose entities.

The special purpose entities faced some difficulties because they are not authorities, such as the Finnish Transport Infrastructure Agency, which traditionally plans railways. The legislation currently valid in Finland does not recognise the planning of the state-owned railway network using the project company model. As the planning of the major railway projects has made progress, unforeseen needs for additional planning have also emerged. This is because there have been needs to change the planned railway's environment, which falls outside the scope of the project company's planning task. Such situations have been solved by case-by-case negotiations between the project company and the Finnish Transport Infrastructure Agency, as the roles and responsibilities have not been clearly pre-determined. This may have caused the Finnish Transport Infrastructure Agency additional planning tasks, for which no resources have been allocated. The audit found a risk that the use of separate organisations planning an individual connection may lead to increasing complexity in the management of the national transport network and land use as a whole, which does not promote the overall development of the national transport system.

According to the audit, discussions between the special purpose entities and the Ministry of Transport and Communications, responsible for their ownership steering, were smooth. The ownership steering was not particularly intense or structured.

## Good practices created by special purpose entities may be adopted in transport infrastructure administration

The audit showed that the special purpose entities involved in the planning of the major railway projects have carried out good work in many ways and created well-working practices. They have developed such innovative and agile operating methods the creation of which would have been much more challenging at the Finnish Transport Infrastructure Agency due to its role as an authority and its size and hierarchies. The audit revealed that it would be beneficial and also possible to adopt many of the new operating practices created by the special purpose entities, where applicable, in the transport infrastructure administration.

The special purpose entities have developed new, efficient operating practices for such purposes as risk management and cost monitoring. They have also created innovative technical planning solutions. The decision-making and planning of special purpose entities are agile, especially due to their small and low organisation. Some of the companies' operating practices could also be adopted by the transport infrastructure authorities.

The special purpose entities have engaged at a low threshold in interactions with the operators involved in the area affected by the railway, land use planning, land owners and other stakeholders. This has allowed them to obtain information quickly and create a positive image of the planned project. During the audit, it was found that there was also a need for new, more flexible means of interaction with the authorities alongside official hearings.

## Not enough room for parallel planning of three major railway projects in the Finnish market

The planning of three major rail connections simultaneously by separate special purpose entities has proven to be an experiment involving uncertainties and risks. The National Audit Office finds it problematic that, for instance, the parallel planning of three major railway projects has bound a significant amount of central government funding. In addition, the state had not decided on the alternative routes for all the rail connections or examined the obligations caused to the Finnish Transport Infrastructure Agency by the planning of the railways and ensured the necessary resources for these before assigning the responsibility for their planning to the special purpose entities.

Finland has highly limited specialist resources for railway planning. Three special purpose entities and the Finnish Transport Infrastructure Agency have been competing for the same service provider resources. The audit found that the environment for the procurement of planning competence has been challenging for the special purpose entities. In addition, the project company model has not

yet been found to have generated significant cost savings in the planning work itself. At the same time, however, the successful timing of simultaneously ongoing large planning projects can promote growth in the specialist capacity, and the growth of the railway planning market could also bring international competition to Finland.

An audit of the legality of procurements by one of the special purpose entities carried out as a part of this audit showed that the procurements of this project company had been performed appropriately, and appropriate processes had been created for the procurement activities.

## Recommendations of the National Audit Office

The Government should

1. consider alternative forms of implementation, make comparisons between them and justify the choices made in a transparent and verifiable manner if there are intentions to plan the transport infrastructure outside the agencies.
2. first make decisions on any major issues concerning infrastructure projects, such as the selection of railway routes, if a project company is to be entrusted with the railway planning.
3. before large railway projects have proceeded to a possible implementation phase, ensure that information on the socio-economic viability of the projects is presented in a transparent manner. The Government should also identify any risks related to issues such as roles, steering, monitoring, funding and conditions created by the legislation and ensure their management. The Government should also further clarify the role of the Finnish Transport Infrastructure Agency and make sure it has the necessary resources for solving any situations concerning the connection of the newly-constructed railway to the rest of the transport network and land use.

The Ministry of Transport and Communications should

4. clarify its role in ownership steering in relation to special purpose entities and their shareholders and make sure that the project companies operate responsibly in collaboration with their small shareholders.
5. specify the roles of different parties in the system of special purpose entities and ensure that, for instance, the Finnish Transport Infrastructure Agency has access to sufficient resources for the planning cooperation.
6. ensure that the good practices generated in the operations of the special purpose entities are also adopted in the operations of the transport infrastructure administration where applicable.

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<sup>i</sup> Recommendation of the Ministry of Finance, 15 March 2019. Principles followed in the reorganisation of central government operations – off-budget funds, independent institutions and foundations. [Order letter \(vm.fi\)](#)

<sup>ii</sup> [Limited company as an organisation form of central government functions - National Audit Office of Finland 2020](#). Audit report 13/2020.

<sup>iii</sup> [Organisation of state-owned business operations - National Audit Office of Finland 2018](#). Audit report 14/2018.