SUMMARY: AUDIT TO THE PROJECT OF METRO-MONDEGO, SA.: A SURFACE METRO SYSTEM IN THE AREAS OF THE MUNICIPALITIES OF COIMBRA, MIRANDA DO CORVO AND LOUSÃ

1. INTRODUCTION

The Court implemented a performance audit to the project designed to establish a surface metro system in the areas of the Coimbra, Miranda do Corvo and Lousã municipalities (SMM), in order to ascertain its level of physical and financial execution, the reasons for delays in its implementation, total costs already incurred, costs which are expected to be incurred in the future and the financing model foreseen for the operation. The audit covered the financial years from 2007 to 2010.

Metro-Mondego, SA, was created on 20 May 1996. Fifteen years later, the surface metro system planned for these three municipalities still isn't operational, notwithstanding the fact that works are currently underway.

2. CONCLUSIONS

At the end of the field work – February 2011, the following summary conclusions were drawn:

- It was the State that decided, via Decree-Law no. 70/94, to implement the metro system. This decision was not founded on a technical document demonstrating the project's financial, economic and technical feasibility, nor was estimated the likely impact on the mobility of the region. Therefore, at the date of its decision, the State did not know which technological solution would be adopted, how much the investment and operation would cost, what amount of public funding would be necessary, consequently it had no guarantee of the surface metro project's financial affordability.

- Metro-Mondego SA was not endowed with sufficient financial resources to execute its corporate object, which therefore obliged the State to acquire 53% of its share capital in 2001, in order to ensure the company's financial sustainability.

- In 2005, Lousã and Miranda do Corvo Municipal Councils prevented the continuation of the international public tender launched by Metro-Mondego SA in February 2005, in order for a public-private partnership to be established to build and operate the metro system. This decision prevented the submission of proposals that would lower the operation cost, as well as the investment cost to be funded by the State.

- 10 years after the company has been set up and five years after the State has become the majority shareholder of Metro-Mondego SA, the then Secretary of State for Transport decided, in March 2006, that two other public companies - REFER and CP – would be responsible for the execution of the 1st stage of the project.

- The principal start of the project's physical execution occurred in November 2009 when REFER, as the developer/owner of the work, began to rehabilitate a section of the Lousã railway line.

- The estimate of the metro system's total investment cost amounted to 512 million Euros plus nearly 59.7 million Euros in financial charges. Thus, in January 2011, the forecast investment cost for the project was 70% (210 million Euros) higher than the amount predicted in 2005 within the document underpinning the public tender for a public-private partnership, and 176% (326.5 million Euros) more expensive than the amount calculated in the Draft Project in 2001.

- The fact that the State has decided to implement a project that, at the outset or within a reasonable time period, lacked consistency in its components, mainly those related to its financial affordability and cost, meant that it has been lasting without running, but always vulnerable to exterior alterations, in particular the priorities and restrictions of the State Budget. These changes have led the project to be revised and rendered more expensive.

- In Portugal there is neither standardisation nor uniformity between the three surface metro systems, in those aspects where this would be possible, by analogy, notwithstanding being the State financing these investments. As a result, an opportunity has been lost to capitalise on competencies and skills and thus obtain procedural savings and economies of scale.

- The estimates drawn up in 2010 suggested an operating deficit for the surface metro system that would oscillate from 4.5 to 4.8 million Euros, in the first year of operation of the entire system encompassing the two metro lines. This results from an operating cost between 12 and 12.3 million Euros for a level of demand of 16.5 million passengers.

- There has been no clear indication of how and by whom the forecast annual operating deficit would be paid . This resulted in a disturbing situation because the operating deficits affordability of general economic interest services is essential to assure such services provision without marked fluctuations.

- Although Metro-Mondego SA has ceased to be responsible for implementing the 1st phase of the project, no adjustment has been made to the size of its Board of Directors, which maintained the same number of company directors (seven) and the costs associated to this governing body remained unaltered.

- Between 2004 and 2007, two of Metro-Mondego SA's executive managers repeatedly breached the principle governing the use of credit cards specified in the Order no. 18 367/2002, issued by the Secretary of State for the Treasury and Finance, of 25 July, i.e. stipulating exceptional and exclusive use of public companies credit cards for expenses inherent to exercise of administration duties.

- The respective public managers, by using repeatedly and incorrectly Metro-Mondego SA's credit cards for their personal benefit, misused their positions in a public company to satisfy personal interests and used public funds entrusted to them for their own benefit.

- The State has been the major funder for Metro-Mondego SA and the surface metro system project, which has cost it 75.3 million Euros up by the end of December 2010.

3. RECOMMENDATIONS

The Court's main **recommendations** issued to the **Government** were as follows:

- Review the criteria for the creation and/or maintenance of public companies, specifically according to their medium and long-term financial and economic profitability.
- Do not resort to indebtedness of public companies in order to cover expenses that should be covered by the State Budget.
- Accompany the State financed decisions regarding the construction of infrastructures by technical documents that clearly demonstrate the respective funding needs, the sustainability of the inherent construction and operation expenses and thus the respective economic and financial feasibility.
- Strive for drafting a national plan that gathers the public funds investment needs over the medium-term, to be implemented in the different modes of public transport.
- Decide on the future continuity of investment in this metro system.
- Ensure formally by which entities and how any eventual operating deficits will be funded, if the decision relies upon the continuity of metro network construction.
- If the decision relies upon the maintenance of Metro-Mondego, SA:
    a) Reduce the number of company directors to strict minimum.
    b) Sign management contracts with the public managers.

To the company's **Board of Directors**, the Court issued the following **recommendations**:

- Analyse the demand statistics, inclusively in comparison to the forecasts specified in the demand study drawn up by the public company Ferbritas, SA, in order to gauge its rigour, upon the metro system entry into force.