



Extract from the report to the
Public Accounts Committee on
the financial position of DSB
(Danish State Railways)

March
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I. Introduction and conclusion

1. This report is about the financial position of DSB (Danish State Railways). The company has been through a turbulent period with large losses recorded in 2010 and 2011 that were followed by the implementation of measures to restore the company to a healthy financial position.

2. We launched the study in April 2013 at the request of the Public Accounts Committee.

The Public Accounts Committee asked Rigsrevisionen for a broad report on DSB's performance as a commercially operated public company providing railway services and related activities. The Public Accounts Committee wanted an assessment of whether DSB is a well-managed company. Our assessment included also an examination of the development in DSB's results, whether the operation of DSB has been cost efficient and whether the owner of DSB, the Ministry of Transport, has supervised DSB in a satisfactory manner.

The Public Accounts Committee's questions were prompted, among other things, by the fact that the Ministry of Transport, in the spring 2014, will negotiate a new contract with DSB on long-distance, regional and S-train passenger transport from 2015 onwards. The majority of DSB's passenger transport services are provided under a 10-year contract entered by the Ministry of Transport in March 2004 and covering the years 2005-2014.

3. The purpose of the examination is to assess whether DSB has been commercially operated with focus on profit, cost efficiency and customer satisfaction. The report answers the following questions:

- Was DSB's financial performance in the period 1999-2013 satisfactory?
- Was DSB operated with focus on cost efficiency and generating operating profits in the period 2007-2013?
- Has the Ministry of Transport supported commercial operation of DSB in the period 2007-2013?

4. The questions put forward by the Public Accounts Committee are included in appendix 1 to the full report (in Danish).

MAIN CONCLUSION

Following a turbulent period with large losses recorded in 2010 and 2011, DSB is now restoring the company to a healthy financial position. In 2013, DSB realised a profit of DKK 386 million. The positive result can mainly be attributed to DSB's Danish activities, which generated an increase in revenue of DKK 1.1 billion from 2011 to 2013 primarily as a result of growth in passenger revenues and increased revenues from transport contracts. The measures implemented by DSB to improve the efficiency of the company led to savings in staff costs, but during the same period other costs went up. This development is, among other things, caused by increased activities within maintenance and growth in passenger transport, but it also reflects a general increase in costs. Overall, DSB is on track to achieve its financial targets for 2014.

The large deficits recorded in 2010 and 2011 were caused by declining revenues and increasing costs from the company's Danish activities. DSB was not sufficiently focused on keeping salary costs down and generating revenues from passenger transport, and at the same time the company's investments abroad generated substantial losses. In 2011 DSB made changes in its executive board and launched a new strategy with focus on a commercially based operation of the company. DSB also liquidated loss-making operations based abroad. DSB is, however, far from having realised the full potential of efficiency improvements and will therefore also in the years ahead work towards cutting costs.

DSB has set performance targets for the years 2007–2011 and 2011–2013, but has not, for all the targets set, considered how target achievement should be measured. This is, in the opinion of Rigsrevisionen, problematic. The Ministry of Transport agrees with Rigsrevisionen that in the future, DSB should ensure that all targets are operationalised.

DSB is an independent public company that must be commercially operated. DSB provides an important service to society and therefore the decisions made by the Danish parliament are occasionally benefiting society as a whole rather than the commercial operation of the company. A dilemma of conflicting interests emerges when the emphasis is on the benefits that can be achieved for the Danish society, and the outcome of this dilemma may ultimately have an adverse effect on DSB's business operations.

The Ministry of Transport has in the period 2007-2013 monitored the financial development in DSB and soon became aware of the financial difficulties that faced the company. Yet, the ministry failed to take adequate action. Rigsrevisionen finds that being the owner of DSB, the ministry has a responsibility to take action when there is evidence that one of its companies is in serious financial difficulties. Since the changes in the Executive Board in 2011, the dialogue between the ministry and DSB on the strategic and financial development of the company has been much closer, and DSB may, as a consequence hereof, be set on a course that the ministry will find satisfactory.