

**REPORT ON PERFORMANCE AUDIT ON THE IMPLEMENTATION OF THE CONCESSION
AGREEMENT FOR FINANCING, CONSTRUCTION AND ECONOMIC USE AND MAINTENANCE OF
ZAGREB - MACELJ MOTORWAY AND ITS
ANCILLARY FACILITIES ON THE ROAD LAND**

(December 2019)

SUMMARY

The State Audit Office conducted a performance audit on the implementation of the Concession Agreement for the financing, construction and economic use and maintenance of the Zagreb - Macelj motorway and its ancillary facilities on the road land. The audit covered the period 2004 - 2018.

The subject of the audit were activities related to the implementation of the Agreement and the results achieved by the end of 2018 in relation to the objectives set by the Decision of the Government of the Republic of Croatia on granting a concession to the motorway and to the contractual provisions.

The auditees were the Ministry of the Sea, Transport and Infrastructure (hereinafter: the Ministry) and the company Autocesta Zagreb - Macelj d.o.o. Zagreb (hereinafter: the Company).

The objectives of the audit were to check the fulfilment of contractual obligations, to check whether the construction of the Zagreb - Macelj motorway was completed within the prescribed deadlines and according to the established model, to check the managing of the motorway, regularity of concession fee calculation and supervision of toll revenue collection and assess whether the concession for financing, construction and economic use and maintenance of the motorway has achieved the objectives for which it was contracted.

The audit found, inter alia:

- for the allocation of the concession to the motorway, there was no public bidding or public tender conducted, and the Ministry does not have the documentation on the basis of which the decision on the allocation of the concession to the motorway was made; the mentioned documentation should, among other things, contain project risks, risk sharing, method of project financing, obligations of the Republic of Croatia, financial effects on the state budget and other effects such as environmental and economic

- the Ministry and the Company do not have a large part of the documentation related to the conclusion and implementation of the Agreement, and due to the time elapsed it cannot be confirmed that the documentation is not properly archived and kept or that it has not been compiled

- the contractual provisions were significantly, and soon after the conclusion of the Agreement, changed; the changes relate to the value of the project, the financing model and the payment of the concession fee, and it can be concluded that more attention should have been paid to the preparation of the project.

- according to the contract, 40.878 km of motorways (one lane) were to be built, i.e. 22.264 km of roads in one lane and 18.614 km of roads in the other lane. Construction work was carried out by a foreign shareholder; the analysis of the cost of works, construction costs per kilometre and a comparison with the construction costs of similar sections was not made

- the Ministry took the obligation to pay the Company, i.e. to the lenders, a fee for the decrease in turnover, which enables the operation of the project in the case of a turnover decrease, and the traffic risk is the greatest risk for the project; the fee is converted into a loan whose balance at the end of 2018 amounts to HRK 195.947.208,00

- the Ministry pays to the Company a subsidy equal to the amount of value added tax collected by the Company from motorway users; prior to the award of the highway to the concession no approximate amount of subsidy was determined; from 2004 to 2018, a subsidy in the amount of HRK 575.587.719,00 was paid, and by the end of the concession, according to projections, an additional HRK 1.030.076.907,00 should be paid.

On the bases of the facts find by the audit, and applying the established criteria, the State Audit Office assesses that the implementation of the Agreement is effective, with some necessary improvements.

The State Audit Office gave the following recommendations:

- pay attention to the preparatory actions for the award of a concession, in particular, the preparation of a feasibility study for the award of a concession or an analysis of the award of a concession and an assessment of the value of the concession in accordance with the Law on Concessions; pre-determine project risks, risk sharing, project financing method, total liabilities of the Republic of Croatia, i.e. financial effects on the state budget and other construction effects such as environmental and economic

- keep business documentation on the award of a motorway concession or other public good owned by the Republic of Croatia, permanently or until its expiration, given that concessions may be granted for a period longer than the period established by provisions on keeping business documentation and that implementation of agreement and the achievement of goals set needs to be monitored

- pay more attention to the preparation of projects so that the essential determinants of the implementation of the agreement or project would not change

- before entrusting construction works, analyse the prices for works and construction costs per kilometre, among other things, by comparison with the costs of construction of similar sections, in order to determine that the prices of works i.e. construction costs are acceptable for the Republic of Croatia

- when preparing future projects or in case of extension of the existing concession due to the construction of the remaining part of the motorway, make an analysis of the impact of risk on the project and the state budget and try to transfer part of the risk to a private investor

- in the preparation of future projects, determine the amounts of subsidies in a measurable way, in order to avoid possible obligations to the state budget and to determine the commitments for the Republic of Croatia in relation to the private investor.

The State Audit Office is of the opinion that, although the construction, maintenance and management of the Zagreb - Macelj motorway is mostly carried out in accordance with the Agreement, satisfactory activities related to the award of the concession have not been fully implemented, because the Ministry does not have the documentation on the bases of which concession was awarded, the Republic of Croatia has assumed the risk of traffic decrease on the motorway, a significant part of the project is financed from state subsidies, and the motorway was built at prices for which there is no comparison with the market prices.

The State Audit Office is of the opinion that the implementation of these orders and recommendations would contribute to the elimination of identified irregularities and omissions, that would increase the efficiency of the implementation of the Agreement and the award of future concessions.