

Summary

The Swedish state's sales of pharmacies (RiR 2012:10)



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This audit is a part of the Swedish National Audit Office's audit strategy *The Swedish State on the Market*. The strategy's focus issue is if the Swedish state acts in a manner that entails that the national commitments are effectively being fulfilled on various markets. The national commitment on the pharmacy market includes supervision, regulation, subsidisation and state ownership.

In April 2009, the Riksdag decided to re-regulate the pharmacy market. The patient and consumer perspective was to be central in the re-regulation and the sale of pharmacies was an important part of the process. The sales should, according to the Riksdag resolution, take place on commercial terms at the same time that it should provide consumers with better access to pharmaceuticals, better service, a better service offering and low pharmaceutical costs.

The state should continue to safeguard various social aspects after the re-regulation such as the safety of the pharmaceutical supply and better pharmaceutical use. The sales were thereby the beginning of a relationship between the state and the new pharmacy actors, and the state has continued responsibility for shaping and developing the relationship with these new actors. The state is a principal/customer in relation to the market actors.

The effectiveness of the sales, in relation to the objectives of the re-regulation and the sales, affects citizens as consumers, tax payers and business operators.

Leading up to the sale, pharmacies were grouped in preparation to be sold in "pharmacy clusters". In 2009, the state-owned company Apoteket Omstrukturering AB (OAB) sold pharmacies in eight pharmacy clusters to four private actors for a total purchase consideration of approximately SEK 6 billion. The sale entailed a capital gain of approximately SEK 4.6 billion.

Apoteket Omstrukturering AB was also charged with establishing a company with no more than 200 pharmacies that would have private entrepreneurs as part-owners. This sale is still under way. The subsidiary Apoteksgruppen i Sverige AB currently runs the member organisation of which the individual, sold pharmacies are a part.

After the sale of pharmacy clusters, OAB converted into a holding company in the Apoteksgruppen Group with two subsidiaries, Apoteksgruppen i Sverige AB and Apoteksgruppen i Sverige Förvaltning AB. At the same time, the company changed its name to Apoteksgruppen i



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Sverige Holding AB. The Swedish state owns all shares in Apoteksgruppen i Sverige Holding AB, and thereby has the controlling influence in Apoteksgruppen i Sverige Holding AB and its subsidiaries.

The objective of this audit is to examine if the Government structured and implemented the sales in accordance with the intentions of the Riksdag and if the sales were reported in a transparent and appropriate manner.

The issues on which the audit is based concern whether or not the sale of pharmacy clusters was carried out in a commercial and effective manner, given the objectives and the circumstances, so that the best possible value and results otherwise were achieved. The audit also covers an assessment of whether the results of the sale of pharmacy clusters and the build-up of a new national corporate group structure were reported to the Riksdag in an appropriate manner and if laws, rules and generally accepted accounting principles were complied with in conjunction with this reporting.

The audit covers the parts of the national executive chain that were responsible for the sale of eight pharmacy clusters, encompassing 465 pharmacies and 150 individual pharmacies. This means that the audit covers the Government (through the Ministry of Health and Social Affairs) and Apoteket Omstrukturering AB (now under the name Apoteksgruppen i Sverige Holding AB). Apoteket AB was the legal seller of the pharmacy clusters and Apoteket AB's reporting of the sales is consequently included in the audit. See figures 1 and 3 for an illustration of how Apoteket Omstrukturering AB developed.

In the audit, the following delimitations are made. One part of the audit focuses on the planning and implementation of the sale. The on-going sale of individual pharmacies to entrepreneurs is not included here. However, the other part of the audit comprises the reporting to the Riksdag of both the sale of pharmacy clusters and the sale of individual pharmacies. All pharmacies that were partitioned off from Apoteket AB to be sold as individual pharmacies are expected to have been sold during 2012. By 14 March 2012, 122 pharmacies had been sold. The audit does not cover the results of the re-regulation or whether the Riksdag's objectives for the re-regulation were achieved. In terms of the assessment of the commercial results, the Swedish National Audit Office (SNAO) has not assessed the monetary outcome, but rather limited the audit to the actual implementation. In terms of the monetary outcome of the cluster sales, the SNAO can, however, confirm that it exceeded the valuation made by OAB and the reference prices set prior to the sale.

The conclusions of the SNAO based on the issues addressed by the audit are presented below.



Conclusions regarding the sale of pharmacy clusters

The need for specific measures relative to the market actors were not analysed

The SNAO examined whether the sale of pharmacy clusters was conducted in a commercial and effective manner, given the objectives of the re-regulation and the circumstances described.

The Government deemed that the competition that would arise on the re-regulated market would serve as a sufficiently effective means to achieve the objectives of the re-regulation and the sale.

However, the SNAO assesses that it would have been appropriate to analyse in advance the respects to which and the areas in which there were risks that the market would not be able to deliver the desired results. Based on such an analysis, the Government could have considered and investigated various actions in relation to the market actors that could counter these risks and promote target fulfilment. According to the SNAO's audit of the supporting documentation of the sale, the Government did not conduct any such risk analysis. OAB conducted a more general review and assessment of the buyers' plans for the business, which is routine in connection with corporate sales. However, the Government was not averse to such considerations, which is clear in the limitations that encompass buyers of "rural pharmacies" to not sell or close these pharmacies.

Need for specifying the conditions for the market in time

In order for a sales process to be able to be implemented in an effective manner, requisite regulations must be in place and be able to be observed by the market actors in time because, otherwise, uncertainty arises that can negatively impact the results of the sale. The Government bears the utmost responsibility for the coordination of the actual sale and the regulations that are required for effective implementation of the sale.

In the audit of the planning and implementation of the sale, the SNAO notes that there was uncertainty as to whether various national authorities, such as the Dental and Pharmaceutical Benefits Agency (TLV), would be able to specify rules and conditions in time. This affected the conditions for the interest on the market during the sales process.

Deficiencies in the Government's governance of Apoteket AB disrupted the sales process

The Government's commitment in the sales process included taking responsibility for the structure and development of the state's relationships with the actors on the pharmacy market. However, the Government's governance of Apoteket AB, both as an independent company and as a subsidiary of Apoteket Omstrukturerings AB, was not appropriate in the preparation and implementation of the actual sales process. In critical phases of the sales process, OAB's resources were used for issues concerning, among other things, future business development, which caused unnecessary concern among the potential buyers and could have been regulated by the Government earlier.

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The management of Apoteksgruppen i Sverige Holding AB has an information advantage over the market

One of the objectives was for the re-regulated pharmacy market to be characterised by effective competition and equal terms between old and new actors. The state directive to OAB included that the restructuring of Apoteket AB should be carried out in a transparent, effective and competition-neutral manner.

All buyers of pharmacy clusters except Apoteksgruppen had access to the sale's data room, which gave information on all pharmacies on the market. The management of OAB and Apoteksgruppen i Sverige Holding AB is one in the same and these companies have thereby received an information advantage and better knowledge about the new competitors compared with other actors on the market.

Altogether, the SNAO makes the assessment that the procedure has meant that an informational asymmetry has been created on the pharmacy market.

Conclusions concerning the Government's reporting of the sales

Incomplete reporting

The SNAO examined if the results of the sale of pharmacy clusters and the build-up of a new national corporate group structure in connection with the sale of individual pharmacies was reported to the Government in an appropriate manner and in accordance with laws, rules and generally accepted accounting principles.

Both the previous Government Budget Act and the currently applicable Swedish Budget Act are clear that the Government must provide an account to the Riksdag of the results achieved in relation to the objectives decided on by the Riksdag. This reporting should encompass the commercial results of all sales and the collective costs of the implementation of the sale. In the reporting of the collective costs for the implementation of the sale, it would have been reasonable, in the opinion of the SNAO, to also include the present value calculations of the cost to the state of the upward adjustment of the trade margin and the results of the sale relative to the objectives of the re-regulation. The reporting provided by the Government to the Riksdag to-date does not include information about this.

According to information from Apoteksgruppen i Sverige Holding AB, a final report on the sales will be made before the summer of 2012 in connection with the fact that the process will primarily be concluded.



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Reporting to the Riksdag has not been appropriate

The Government's reporting to the Riksdag about how the sales have been carried out is thus far meagre and ambiguous. This applies to both the reporting made in the 2012 budget proposal and the 2011 letter on state-owned companies. Consequently, the SNAO assesses the information to the Riksdag to-date as not suitable for the purpose.

The deficiencies in the Government's reporting to the Riksdag also apply to the reporting of the new state-owned corporate group that has been formed, Apoteksgruppen i Sverige Holding AB. Through this corporate group, the state controls a new nationwide pharmacy retailer, Apoteksgruppen. After the implementation of the re-regulation, the state hereby essentially controls two pharmacy groups – Apoteket AB and Apoteksgruppen i Sverige Holding AB – and two brands on the pharmacy market belonging to them. This is not clear from the reporting.

Recommendations

The Government's reporting of the sales needs to become more comprehensive

The Government should provide a more detailed report on the re-regulation to the Riksdag. Such a report should comprise the sale's commercial results, including the total costs, and the result of the sale in relation to the objectives. The Government should also provide a report of the organisational solution that has been created in the sale of individual pharmacies and the consequences for the state, including resource needs and risks in the operation. This contributes to better documentation for future sales, including those in other re-regulated industries.

The Government should survey the state's share of the pharmacy market

The SNAO recommends that the Government survey the pharmacy market with the aim of clarifying the state's position on the market. In doing so, the state's influence over the operations in Apoteksgruppen i Sverige AB should be examined. More measures and more developed measures of market share and market strength should be used in addition to the share of the total number of pharmacies.



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The Government should consider eliminating informational asymmetries on the pharmacy market

The SNAO recommends that the Apoteksgruppen's information advantage compared with other actors on the market be investigated from a competition-neutral perspective.

The Government should investigate operations in Apoteksgruppen i Sverige Holding AB in relation to the Riksdag's objectives

The SNAO recommends that the Government investigate and report on a plan for how Apoteksgruppen i Sverige Holding AB will be developed. The Government should also investigate how conditions can be created so that the state will be able to sell its share in the pharmacies that are members in Apoteksgruppen i Sverige AB and hand control of the member organisation over to the members. In the consideration of the decision on re-regulation, the Standing Committee on Health and Welfare and the Standing Committee on Economic Affairs assessed that the state's ownership in this company could end entirely on the long term.

