



## Summary:

# State corporate ownership – Timeliness of state holdings of enterprises

## Audit background

The State is one of the largest business owners in Sweden. There are currently around 50 state-owned enterprises with a net turnover of almost SEK 350 billion and 158 000 employees. The total value of state-owned enterprises was estimated to be SEK 430 billion in 2015. State ownership of companies, unlike a privately-owned portfolio of companies, was not built up on the basis of a coherent idea of value creation and risk spread. It can rather be seen as the result of a process in which the State, on the basis of political premises, has intervened to deal with various societal challenges.

State ownership sometimes continues despite the fact that societal development has changed the conditions that apply. If the reasons for state ownership no longer apply, this means that capital that could be used for other purposes is tied up unnecessarily. Unclear rationales and hence unclear objectives may also have a detrimental effect on effective governance of state-owned enterprises. Another problem concerns difficulties for central government to balance its double role in competitive markets, i.e. on the one hand owning and running companies and on the other hand having a regulatory, supervisory and in some cases even a judicial role. State corporate ownership is thus associated with costs and risks that must be weighed against its revenues and returns.

## Purpose and implementation

The purpose of the audit is to assess whether the Government in its administration of state-owned enterprises ensures that the reasons for state ownership are timely and clearly formulated, as well as whether the Government's reporting to the Riksdag is appropriate in this respect.

*The audit is based on the following audit questions:*

- Does the Government endeavour to analyse and motivate ownership in all state-owned enterprises?
- To what extent is there reason for the Government to analyse more state-owned enterprises than has so far been the case?
- Is the Government's reporting to the Riksdag on state-owned enterprises appropriate with respect to the reasons for state ownership?

*The reasons given by the Riksdag for continued state ownership are when:*

- The company succeeds better under state ownership.
- The market conditions are such that reduced state ownership would adversely affect competition or prevent sound societal development.
- The company has a natural monopoly or when strong public interest argues in favour of a monopoly.
- The company meets important national interests or has a public policy assignment that would be difficult to manage without state influence.

According to the Riksdag the State shall only own enterprises if this is also warranted for reasons other than to distribute profit to the owners.

The audit also takes into account other relevant Riksdag statements as well as the OECD Guidelines on Corporate Governance of State-Owned Enterprises. The OECD's guidelines are based on theoretical and practical knowledge and were adopted through consensus by the governments that jointly drew up the guidelines. The decision was preceded by wide consultation. The guidelines reflect best practice in the area. The Swedish Government's administrative principles for state-owned enterprises by and large follow the OECD Guidelines on Corporate Governance of State-Owned Enterprises. Sweden has also participated actively in developing these guidelines.

The audit's empirical base consists mainly of document studies, including the Government's annual reporting to the Riksdag on state corporate ownership. Documentation at the Government Offices and archived material from the Inquiry on Ownership and Influence in Swedish Business (ToR 2011:33) was also studied. During the audit representatives of the Government Offices (Division for State-owned Enterprises) were interviewed and in connection with this cross-checks and supplementary examination of the documentation were carried out.

As part of the audit the Swedish NAO commissioned a research survey on the state of knowledge concerning the State as owner. The audit also included an international outlook with examples from the Nordic countries.

## Audit findings and conclusions

The Swedish NAO's overall conclusion is that the Government does not do enough to ensure that the reasons for state corporate ownership are timely and clearly formulated for all state-owned enterprises. The audit shows that the Government makes assessments of the timeliness of individual holdings and acts on the basis of the assessments. But this is not done for all state-owned enterprises and not in a recurrent and systematic way. Moreover the Swedish NAO assesses that the Government's reporting to the Riksdag on reasons and timeliness of state corporate ownership can and should be developed.

A fundamental premise for the audit is Chapter 9 of the Instrument of Government and the Budget Act. These provisions state that a high degree of effectiveness and good economy is to be observed in central government activities. Since the state-owned enterprises tie up capital and there are risks in the respective activities it is important, in the opinion of the Swedish NAO, that the reasons for ownership are clear and timely. Otherwise the State risks a deterioration in results-based management of state-owned enterprises and capital that could otherwise have been used for more important tasks is tied up unnecessarily. The Government should therefore have clear and timely reasons for state ownership.

### *The Government does not work sufficiently actively to assess the rationales for state-owned enterprises*

In its 2016 report to the Riksdag on state-owned enterprises, the Government expressed its intention to present the reasons for state-ownership, in line with the OECD's new guidance on regular review of the rationales for state ownership for each individual state-owned enterprise. The audit shows, however, that the Government has not as yet fully applied the guideline that the state should carefully define the rationale for state ownership of individual holdings and that this must be evaluated on a regular basis.

The Swedish NAO can note that the Division for State-owned Enterprises has developed over time and that increasing importance has been given to meeting the need for coherent professional expertise in the administration. The Division has built up its own capacity for analysing state-owned enterprises. At the same time the Swedish NAO can note that

the improved capacity is not used to explicitly focus on the Riksdag's adopted rationale for state ownership.

The Government has engaged external experts on three occasions (2007, 2009 and 2011) to analyse how the enterprises meet the Riksdag's rationale for state ownership. The purpose above all has been to assess which enterprises the State should continue to own and which could be sold at an appropriate opportunity. Five years have now passed since the last review of all the State's corporate holdings.

The Government has also drawn up 'enterprise reviews' as a method to examine and analyse individual holdings based on the Riksdag's reasons for state ownership of companies. These enterprise reviews are made to be able to assess for example if an enterprise is to remain under state ownership, or if in light of changed market conditions or other reasons it should be sold or have its role and responsibility clarified.

The last enterprise review was carried out in February 2015. According to information given to the Swedish NAO, there are no overall statistics within the Government Offices of the number of enterprise reviews or when they were carried out. If enterprise reviews are event-driven and not carried out regularly, there may be a delay before individual state-owned enterprises are analysed using the methods and procedures drawn up.

The State's corporate ownership is very heterogeneous. The Division for State-owned Enterprises must therefore have knowledge of a number of different industries and business sectors, where both small and larger state-owned enterprises operate. Every state-owned enterprise requires a not inconsiderable minimum period of time for processing basic practical and organisational questions, regardless of size. In August 2016 the Division for State-owned Enterprises at the Ministry of Enterprise and Innovation, which administers 42 of the 49 state-owned corporate holdings, employed about 30 people; eight analysts, 14 managers (of whom one Unit Director), two specialists in sustainable enterprise and two board recruiters. There is also a position as portfolio controller/head of communication, which is, however, vacant.

### *There are state-owned enterprises the Government may need to review*

Society and the economy are constantly changing. Activities that were natural monopolies a few decades ago are not monopolies today. New technology, changed conditions of competition, as well as changed political priorities and decisions made as part of EU cooperation etc., mean that historical reasons for state ownership may change or become out of date.

In the audit the Swedish NAO has examined the state-owned enterprises and analysed whether there are further examples of holdings that may need to be discussed as regards forms of ownership and operation. The Swedish NAO wishes to underline that the purpose of this is, based on a comprehensive survey of the stock of state-owned enterprises, to identify examples where there may be reason to carry out an in-depth analysis in terms of the rationale for state ownership. Further analysis is necessary to draw any conclusions on individual state-owned enterprises. Hence, the assessment presented by the Swedish NAO is not a recommendation to the State to privatise, discontinue or change the forms of operation of these holdings. On the other hand, the result can be interpreted as an indication that it may be warranted to review ownership in these state-owned enterprises in more detail.

In 2011 an external consultant made a survey of more or less all state-owned enterprises on behalf of the Ministry of Finance. The survey shows that for eight state-owned enterprises there were no clear-cut reasons for continued state ownership on the basis of the Riksdag's criteria. These companies were Dom Shvetsii, Lernia, SAS, SBAB, Svenska Skeppshypotekskassan, Swedesurvey, Telia Company and Teracom. For Lernia and SAS there are at present no current authorisations from the Riksdag to the Government to sell the companies.

The Swedish NAO shares this assessment from 2011 and considers that it is still relevant. For example, earlier this year the Swedish NAO published an audit of Teracom that shows that there are no reasons for state ownership of the parts of the business that are not covered by the company's specially adopted public policy assignment.

In addition, in the opinion of the Swedish NAO there may be reason to assess whether the rationale for state ownership is met for Apoteket, Apoteksgruppen, Bilprovningen, Orio and Metria (For Bilprovningen and Orio the Government has a mandate to change state ownership). For the three first-mentioned enterprises the market conditions have changed since their markets were re-regulated and the enterprises now operate in markets that can be regarded as well functioning. Orio is a remnant of the Saab Automobile crisis. Moreover, since the beginning of the 1990s, around a dozen central government activities have been corporatized so that production is on the same terms as for private competitors. Metria is one such company.

Under the fundamental principle of the Companies Act, the purpose of limited liability companies is to generate profit for the owners. The audit shows, however, that there are state-owned enterprises where the economic premises imply that the appropriateness of the corporate form to the public commitment may need to be reviewed. There may therefore be reason to investigate the pros and cons of the current corporate form in

relation to alternative forms for these enterprises. This category includes Svedab, whose operations and finances require payment undertakings from the Swedish Transport Administration as well as companies such as Dramaten, Operan, Samhall and VisitSweden, whose finances are largely based on appropriations.

The State owns a number of small enterprises in widely differing sectors, such as Miljömärkning Sweden AB and Voksenåsen, which both have specially adopted public policy assignments. However, there are also other small state-owned enterprises that do not have a specially adopted public policy assignment. This category includes enterprises such as Swedesurvey and Dom Shvetsii. Regardless of size, all state-owned enterprises require some basic utilisation of time and resources in the Division for State-owned Enterprises. In view of that, there may be reason to investigate whether the conditions for allocating attention between small and large holdings can be improved and to review the pros and cons of current ownership structures and corporate forms in relation to alternative solutions.

### *The Government's reporting to the Riksdag on state-owned enterprises can be improved*

In accordance with a Riksdag decision of 1981 the Government submits annually a report on the past year's management of state-owned enterprises to the Riksdag in the form of a Communication. In connection with the decision, the Committee on Industry and Trade noted with approval that the report should include at regular intervals a declaration of principle on the objectives and guidelines of state corporate ownership as well as an overall presentation of whether objectives set have been achieved. The Committee stated that the organisation and operations of the state-owned enterprise sector gives the Government and Riksdag reason to make recurrent and regular considerations of fundamental issues. The Committee assumed that the issue of the design of the report would be carefully considered, so that the information value met high standards.

Since 2011 the Government's reporting to the Riksdag has contained statements that the Government reviews holdings and considers the reasons for ownership. The audit shows that the last review of how all state-owned enterprises meet the Riksdag's rationale for state ownership was carried out in 2011. The results of the Government's reviews of the entire holdings of state-owned enterprises have not been communicated to the Riksdag other than in cases where the Government has asked for a mandate from the Riksdag to change ownership. The latest enterprise review of an individual state-owned enterprise with regard to the rationale for ownership was carried out in 2015 and the Government Offices do not have any data on the number of enterprise reviews or when they were

carried out. The Swedish NAO considers that this information would be relevant for the Riksdag.

In Norway and Finland the respective governments review the overall reasons for state ownership more often and more regularly than in Sweden. In more or less every electoral period these governments inform parliament of the rationale for state corporate ownership and parliament deals with the issue with the same regularity. The Swedish NAO's audit shows that the rationale for state corporate ownership adopted by the Riksdag has not been subject to renewed consideration since 2007.

## The Swedish NAO's recommendations

The State is one of largest business owners in Sweden and the total holdings represent significant values. As with other limited liability companies, the purpose of state-owned enterprises is to generate profit for the owners. In addition, state-owned enterprises must live up to the rationale for state ownership that the Riksdag has specified.

Society and the economy are undergoing constant change and the rationales for state-owned enterprises may thus change and become out of date. If the reasons for state ownership are no longer relevant this entails unwarranted risk-taking on the part of the State and that capital is tied up unnecessarily. Unclear motives may also have a detrimental effect on effective governance of state-owned enterprises. In view of the above it is important that the rationales for each individual state-owned enterprise are regularly reviewed.

*The Swedish NAO recommends* that the Government intensifies its work of implementing the OECD guidance on careful evaluation and communication of the rationale for ownership in each individual state-owned enterprise. In line with the guidance, the review should be at regular intervals and include considerations of whether the objectives can be achieved by means of other forms of commitment or measures than state ownership of enterprises.

In connection with the guideline decision on state-owned enterprise governance of 1981 the Riksdag expressed certain expectations of the Government's reporting on state-owned enterprises. The Riksdag noted with approval the Government's proposal that the information to the Riksdag at certain intervals should include a declaration of principle on the objective of state ownership of enterprises to make it easier for the Government and the Riksdag to make recurrent and regular considerations of fundamental issues.

*The Swedish NAO recommends* that the Government regularly and clearly reports to the Riksdag the overall rationale for state ownership of each individual enterprise.

The Government should also consider informing the Riksdag of plans of action for state-owned enterprises where the assessment has been made that the reasons for state ownership no longer apply.