



Summary and recommendations

The Swedish NAO's conclusion is that the Government has not sufficiently developed and adapted the governance of public enterprises to their current form of operations and future challenges. The stance of policy on the governance of the public enterprise corporate form needs to be updated to ensure that it is up to date and efficient.

Background and reasons for the audit

Central government activities are normally conducted by administrative agencies. In addition, there are state-owned companies, foundations and some public enterprises. The public enterprise corporate form came into being as part of the 1911 budget reform. The public enterprises had important functions in the 1900s, not least as regards extending and maintaining infrastructure. The intention to the establishment of the public enterprise corporate form was to enable the public enterprises to conduct their business independently of the central government budget.

In the same way as administrative agencies, public enterprises are part of the legal person of the State and are governed through a number of exemptions from and additions to the regulatory code applicable to administrative agencies in general.

In the past 20 years five public enterprises have been transformed into state-owned companies and some of the older public enterprises have been closed down. Three public enterprises now remain: Svenska kraftnät (Swedish Transmission System Operator), the Swedish Civil Aviation Administration and the Swedish Maritime Administration. No new public enterprises have been formed since 1992.

The main characteristic of public enterprises is that they conduct business activities and have greater financial autonomy than administrative agencies in general. Public enterprises also have a varying degree of public administration responsibility which may include standard-setting and exercise of public authority. All three remaining public enterprises perform vital societal functions and act on markets characterised either by natural monopolies or public goods, for example national emergency preparedness and defence.

Since the formation of the public enterprises, limited liability companies have become the predominant form for the conduct of business activities by the State and there are also examples of state-owned companies with special public policy assignments and exercise of public authority. At the same time, the Government has developed its governance of state-owned companies and the financial framework for agency governance. There is, therefore, reason to audit whether the Government's governance of public enterprises is adapted to their special characteristics and whether Government governance has taken into account developments in the respective public enterprises' areas of operation.

Purpose and audit question

The Government's governance and control of public administration is central to the achievement of government policy. Governance is a wide concept and covers both formal decisions and informal contacts.

The purpose of this report is to audit the Government's governance of the three remaining public enterprises. This means auditing whether the governance is designed in relation to the special characteristics of the public enterprises.

The audit question is:

- Has the Government adapted its governance to the public enterprise corporate form?

Audit findings

Government agencies now have the same possibilities as public enterprises

The many exemptions and additions that apply to public enterprises make it difficult to overview the regulatory framework governing the public enterprises. Some exemptions are not clearly motivated, and some are not used by the three remaining public enterprises. From the perspective of governance, there are risks associated with the many exemptions from, or additions to, the general regulatory framework. It is reasonable that the exemptions and additions made for the public enterprises are relevant in relation to their activities, up to date and clearly motivated. Common and valid guidelines for the public enterprises, like the ownership policy that exists for state-owned companies, would contribute to a better overview and increased clarity.

The financial administration regulatory framework that applies generally to administrative agencies has also been developed in a direction that makes it possible for the Government to allow an "ordinary" administrative authority to function in the same way as a public enterprise. Consequently, it should be possible to conduct the operations of public enterprises in an ordinary administrative agency. Thus, there is reason to review the current regulatory framework for public enterprises and clearly present the reasons for existing exemptions or additions.

There are no criteria for when a public enterprise is an appropriate corporate form

According to the Riksdag Committee on Finance, the principal rule when choosing the corporate form for state activities is that of a government agency and the choice of another corporate form should be regularly reviewed. Given the special characteristics of public enterprises, operations conducted in this corporate form should be subject to review. The corporate form for several individual enterprises has been reviewed over the years, and sometimes resulted in corporatisations. Inquiries on the Swedish Civil Aviation Administration and the Swedish Maritime Administration have not, however, led to any proposals from the Government to the Riksdag. Clear criteria for when the respective corporate form is appropriate would have facilitated the corporate form reviews. On the matter of state-owned companies, corresponding criteria exist to clarify when a company is the appropriate form for central government activities. Given the special characteristics of public enterprises, similar criteria would have been warranted.

Several logics of functioning require clear governance

Public enterprises have agency-like governance but company-like requirements regarding finances and reporting to the Government. The conditions for governance of public enterprises are more complex than for other agencies and require different competencies. Public enterprises have been given more freedom than other public agencies, which also imposes requirements as to the clarity of governance. The greater freedom of action imposes higher requirements of accountability for the state assets managed by the enterprises. In addition, the public enterprises conduct mixed activities with dual logics: business activities and public benefit. In these respects, the governance has not been sufficiently adapted to the characteristics of operations of the public enterprises.

The financial targets have seldom been adjusted

The financial targets set by the Government have not been adjusted or adapted to the development of the public enterprises for a long time. The macro economic situation is not the same as when the targets were established, and the public enterprises are in need of major future investments. This increases the importance of relevant financial targets. If the financial targets are not up to date and adapted to the internal and external conditions of the public enterprises, they risk either being wrongly managed or ignored. The Swedish NAO has not found any description of the purpose of the financial targets for the public enterprises. This would have increased understanding of how the Government has arrived at the target levels.

Apart from the objectives of the public enterprises' capital structure, the Riksdag also determines, through the Budget Bill, the public enterprises' borrowing frameworks and credit. It is not clear how the approved borrowing and credit frameworks relate to the capital structure objectives. Both reasonably affect the public enterprises' ability to borrow, and thus the financial risk taken by the enterprises (the State). Duplicate targets for the same purpose should be avoided.

Besides their business remit, the public enterprises have important societal tasks, like state-owned companies with a specially determined public policy remit. The management of these state-owned companies with a specially determined public policy remit is partly decentralised to the respective sectoral ministry but the Ministry of Enterprise and Innovation has responsibility for overall issues, such as establishing and evaluating financial targets and the Government's reporting to the Riksdag. Hence, there is a need to professionalize the management of the public enterprises in order to better

analyse and set relevant financial targets. Lessons can be learnt from the knowledge of corporate governance within the Government Offices.

Documentation of the Government's corporate governance is insufficient

The responsibility for governance of the public enterprises is split between two ministries. When the Committee on the Constitution examined the Government Offices' governance of the Swedish Civil Aviation Administration and the Swedish Maritime Administration, it highlighted the importance of documentation from dialogues between the public enterprises and the ministries. The Swedish NAO agrees with this opinion. Improved documentation would increase the possibilities to follow up the meeting and to achieve a common ground. Adequate documentation would also provide the conditions for the full functioning of constitutionally governed parliamentary control.

Adequate documentation promotes transparency and the possibility of following the discussions held between ministries and public enterprises. It is important, not least for more effective transfer of knowledge to new key personnel at the Government Offices or the public enterprise.

The dialogues between the ministry leadership and the leadership of Svenska kraftnät are better documented, which facilitates parliamentary control and provides opportunity to follow the discussions over time.

The Swedish NAO's recommendations

The Swedish NAO makes the following recommendations:

- The Government should review the regulatory framework for the public enterprises to ensure that it is relevant and up to date. Exemptions and additions that are specific for public enterprises should be motivated and could preferably be collected into guidelines for the Government's governance of public enterprises.
- The Government should draw up general criteria for when the public enterprise corporate form is appropriate, comparable with the criteria that exist for state-owned companies.
- The Government should develop and present the reasons for the public enterprises' financial targets, ensure that the targets are up to date and regularly review them. The Swedish NAO notes in this context that the Government has announced a review of the financial targets for Svenska kraftnät.

- The Government Offices should develop the documentation of agency dialogues between public enterprises and the ministry responsible to facilitate parliamentary control and improve the possibilities of those concerned to achieve a common picture of the content and outcome of the discussions.