

Conclusions and recommendations of the National Audit Office

Organisation of state-owned business operations

The State of Finland uses companies to manage internal service tasks and to carry out business operations. The purpose of this audit has been to assess the prerequisites for the business operations. The State of Finland carries out market-based business activities through the limited liability companies and unincorporated state enterprises in its ownership. The State of Finland is the sole owner, the majority owner or a minority owner in 68 limited liability companies and the total value of this ownership is about EUR 34 billion. The State of Finland also carries out business operations through Senate Properties (which has the status of an unincorporated state enterprise) and Metsähallitus (which is structured as a special state enterprise).

In accordance with the principles guiding its ownership policy, the State of Finland must work to maximise economic returns and the positive societal impacts when managing its commercial assets. The management of the assets combines the requirements for business profits, higher ownership value and economic sustainability as well the expectations concerning the successful management of the public service tasks carried out by the companies and unincorporated state enterprises.

The audit is part of the audit theme covering the management of the assets of the State of Finland. In the audit, the issue was examined from the perspective of the management of the assets and the aim was to determine whether the commercial operations are in accordance with the criteria set for state-owned business activities. There is no set of guidelines governing the organisation of state-owned business operations and for this reason, the audit criteria are based on the Government Resolution on State Ownership Steering Policy adopted in 2016, OECD Guidelines on Corporate Governance of State-Owned Enterprises, and the decisions and case law concerning the EU's single market.

The audit covered the organisation of state-owned business operations. The purpose of the audit was to assess whether the business operations covered by the audit have been in accordance with the objectives and expectations set out for them and whether the policies and legislation guiding the central government role have been observed.

The aim of the audit has been to promote good management of central government finances by producing information on to what extent the commercial operations are determined by profitability and competition neutrality, and how synergy, ownership role, accountability and the management of business risks impact the decisions concerning the business operations and how they should be considered in the decisions.

In spring 2018, the Ministry of Finance started drafting guidelines for the principles under which central government operations should be reorganised. One purpose of this work is to prepare assessment criteria for establishing state-owned companies. There are good grounds for this because converting operations into company form concerns an increasing proportion of state-run activities.

Most of the expectations placed on state-owned business operations have been met in the activities covered by the audit. However, there is some tension between the regulatory and service objective on the one hand and the business operations on the other that is related to profitability, the limited nature of the markets and competition neutrality.

Some of the public service tasks provided by central government on a commercial basis are not particularly profitable. Developments in the markets for universal postal service and multipurpose icebreakers have weakened the prerequisites for profitable business operations. However, both the delivery of letters and icebreaking are essential public services, which must be maintained. It seems that in the future, maintaining universal postal service in its current form is only possible if subsidies are provided for the purpose.

If the revenue generated from the operations does not cover the costs, there is no justification for providing the service on a commercial basis.

The Finnish Transport Agency is the most important customer for Arctia Ltd's icebreaking operations in the Baltic Sea. The company is also permitted to establish market-based partnerships. At the moment, service purchases made with funding from the state budget account for most of the company's revenue. For this reason, it is more important to monitor the cost-effectiveness of Arctia Ltd than the profitability of its operations. Business principles are also poorly suited for purchasing icebreaking services because the fleet size is based on standby needs and not on commercial considerations. Furthermore, in situations like this, public procurement procedures do not generate benefits that would justify contractual practices based on commercial assignments.

Because of the strong financial position of the state and its role as an owner and regulator, state-owned business operations may have a negative impact on markets subject to competition. The state should only have a presence in such markets if there are special reasons for that. Under a policy decision of the Finnish Government, in companies in which there are no grounds for state shareholding, ownership will be given up in a controlled manner. This together with changes in the operating environment will require monitoring of the companies' operations and their operating environment, as well as regular assessment of the forms of the business and the objectives and justification for state ownership.

Senate Properties acts as an unincorporated state enterprise and an in-house entity in the state group. As part of its core task, Senate Properties also leases out premises to actors that do not have an in-house entity relationship with central government. These operations account for about 10 per cent of its turnover. Under the Act on Public Procurement and Concession Contracts, the limit for external sales is 5 per cent or EUR 500,000.

The status of Senate Properties as a state in-house entity would require that the percentage of external sales allowed under the Act on Unincorporated State Enterprises is different from what is laid down in the Act on Public Procurement and Concession Contracts. There is also a risk that even small-scale external sales by Senate Properties could give rise to an interpretation (irrespective of its status as in-house entity) that its exemption from bankruptcy and corporate taxes are state aid prohibited under corporate law.

Senate Properties operates as an unincorporated state enterprise, which is justified from the perspective of its task and this operating structure is also beneficial to the state at group level.

When establishing SoteDigi Oy, the Finnish Government transferred commercial assets to the State Business Development Company Vake Oy and capitalised the new company with the sales proceeds. This procedure did not require Parliament to make a decision on appropriations.

The existence of state-owned companies may mean that Parliament will lose some of its budgetary powers.

Recommendations of the National Audit Office

The National Audit Office recommends that

1. The ministries steering the state-owned business operations should assess, on a regular basis, that the existence and objectives of state-owned companies and unincorporated state enterprises will remain justified from the perspective of financial results and societal impacts.
2. The Ministry of Finance and Senate Properties should jointly ensure that the business operations of Senate Properties as an unincorporated state enterprise are in accordance with the requirements set out for in-house entities.
3. The Ownership Steering Department of the Prime Minister's Office, the Ministry of Transport and Communications and the Finnish Transport Agency should jointly examine ways of ensuring how the service and safety level of winter navigation can also be ensured in a changing operating environment.
4. The Ministry of Transport and Communications and the Finnish Transport Agency should jointly examine how to separate the costs of keeping the Baltic Sea icebreakers on standby from the service contracts and how to make the preparedness task a cost-based responsibility of Arctia Ltd.
5. As laid out in section 33 of the Postal Act, the Ministry of Transport and Communications and the Finnish Communications Regulatory Authority should prepare for a situation where costs arising from providing a universal postal service will have to be covered with state funds.