

# Conclusions and recommendations of the National Audit Office

## Metsähallitus as a manager of state-owned land and water areas

The audit covered the role of Metsähallitus as a manager of state-owned land and water areas. Metsähallitus is an unincorporated state enterprise that manages its responsibilities as an organisation comprising three business units: Parks and Wildlife Finland, Metsähallitus Property Development and Metsähallitus Forestry Ltd.

Under the Act on Metsähallitus (234/2016), Metsähallitus has a Board of Directors, Managing Director/Director General and a separate unit responsible for public administration duties. Under the Act on Metsähallitus, the public administration unit means the Parks and Wildlife Finland unit.

Metsähallitus Forestry Ltd, the limited liability company referred to in the Act on Metsähallitus Forestry Ltd (235/2016), is responsible for the forestry operations of Metsähallitus. Metsähallitus Property Development operates as a business unit within Metsähallitus. The unincorporated state enterprise and its subsidiaries comprise the Metsähallitus Group.

The purpose of the audit was to determine whether the state-owned property is managed in a profitable manner. This means that the value and rise in value of the property can be secured and the return on property is in accordance with the targets set for it. The aim was to promote the accountability and transparency of the forestry company and the unincorporated state enterprise. The auditors also reviewed the cost-effectiveness of the management of the public administration tasks and the manner in which it has evolved.

## Metsähallitus has not achieved its long-term target for return on investment

Metsähallitus Group has failed to achieve its return on investment targets each year since 2012. That year, the target was raised from three to five per cent, and the corresponding target under the new balance sheet structure, tax treatment and investment recording practice is 4.6 per cent. During the period after 2012, the return on investment has varied between 2.4 and 4.7 per cent. According to Metsähallitus, this is mainly due to the losses generated by its subsidiaries. Based on the audit findings, the costs arising from the establishment of the forestry company in connection with the new Act on Metsähallitus in 2016, non-recurring pension insurance contributions as well as legal costs arising from cartel and other processes have also reduced the return on investment. Steered by its owner, Metsähallitus has divested itself of unprofitable subsidiaries. At the same time, the targets set for the forestry business have been met. Metsähallitus is making efficient use of the supply of wood, the roundwood trade method suited for it. Due to highly profitable forestry operations and property sales permitted by a strong equity base, the unincorporated state enterprise has occasionally been able to transfer more revenue to its owner than targeted or what it has generated as profits during a financial year. The Metsähallitus Group has achieved most of its public service objectives.

## Metsähallitus generates substantial revenue and it also fulfils an important public service role

Based on the audit findings, Metsähallitus is well placed to achieve the return on investment target of 4.6 per cent by the year 2020. When the return on investment is considered, it should be remembered that in addition to generating revenue, Metsähallitus also fulfils an important public service role by carrying out the public service obligations laid out in the Act on Metsähallitus. Metsähallitus has estimated that without these obligations, its profits would be 156 million euros each year, compared with the current figure of about 100 million. Based on the audit findings, the business value generated by Metsähallitus and the benefits resulting from its role as a public service provider are comparable with the return on investment generated by its main competitors, when its profits and the inputs required by its obligations are proportioned to its assets subject to the return on investment requirement.

## Decisions on new business operations require a high decision-making threshold

Launching new business operations requires careful consideration, a high decision-making threshold and a thorough analysis of the reasons why Metsähallitus has divested itself of earlier business projects after a short period.

Before expanding its operations, Metsähallitus should carefully consider whether it is reasonable to start risk-prone business operations in a situation where its return on investment has repeatedly remained below long-term targets and where this has mainly been caused by the losses generated by its subsidiaries.

## Balance sheet valuation is partially based on estimates

Based on the audit findings, the balance sheet valuation of the unincorporated state enterprise Metsähallitus is partially based on estimates. This is because the discount rate describing the return on investment requirement has a strong impact on balance sheet value. Based on an analysis produced by a consultancy firm, it was proposed that the discount rate range should be set at between 4.3 and 5.7 per cent. The interest rate applied by Metsähallitus is at the upper end of the range, which in turn means that the balance sheet value is at the lowest end of the range (2.6–4.0 billion euros). Metsähallitus provided the auditors with logical arguments why its Board of Directors has set the discount rate at 5.7 per cent but they were not stated in the documents.

## Balance sheet value should correspond to the fair value of the land and water areas

The valuation of the state-owned land and water areas in the balance sheet of the unincorporated state enterprise Metsähallitus has an impact on its profit requirement, on how much of its profits it must transfer to the state and on its return on investment target. Balance sheet valuation also has an impact (through such factors as the key figures presented in the financial statements) on the business operations of Metsähallitus Forestry Ltd as well as on how the

company's profitability and the profitability of the unincorporated state enterprise as a whole are assessed.

The balance sheet value of the state-owned land and water areas managed by Metsähallitus should correspond to the actual value of the asset items so that the targets set for Metsähallitus allow it to manage the land and water areas in a profitable manner. For this reason, the balance sheet of Metsähallitus should be revalued more systematically.

### Cost-effectiveness of the public administration tasks should be improved

Based on the audit findings, the Parks and Wildlife Finland unit is well-placed to manage its public administration duties in a cost-effective manner. There is room for improvement with regard to cost-effectiveness and online services play an important role in this process. One cannot make any conclusions on cost-effectiveness trends on the basis of the total productivity index because there are substantial differences between the operating years in the management of public administration tasks. The cost-effectiveness of quantitative performances also depends on external factors in which case there are changes in cost-effectiveness even though inputs remain the same. No direct cost-effectiveness targets have been set which means that there are no benefits from making comparisons between targets and actual performance. There is also the danger that no action is taken even if deviations are detected.

### Recommendations of the National Audit Office

1. Metsähallitus and the Ministry of Agriculture and Forestry should give the reasons why the discount rate used for determining the fair value of the land and water areas and describing the return on investment requirement has been set at 5.7 per cent and to provide proper documentation of this.
2. As the profitability and transfer of profits requirement set for the unincorporated state enterprise as well as the return on investment target are based on the fair value of the assets subject to the return on investment requirement, Metsähallitus, the Government and the Ministry of Agriculture and Forestry should determine the balance sheet value of the land and water areas managed by Metsähallitus more systematically.
3. Before Metsähallitus is authorised to start new business operations, it should be determined whether it is appropriate for the unincorporated state enterprise to take business risks.