

Conclusions of the National Audit Office

Steering of strategic-interest companies

Since 2004, Government resolutions on state ownership policy have referred to the term “strategic interest” when explaining the rationale for state ownership of commercial companies operating in competitive markets. The state’s strategic interests mainly concern security of supply, other areas of infrastructure maintenance and national defence.

The purpose of the audit was to assess whether ministries have steered the implementation of the state’s strategic interests through state-owned companies in an appropriate manner. The audit covered the clarity of the manner in which the strategic interests have been defined, steering of the companies aimed at ensuring that the interests are met, economic efficiency in the companies’ operations, reporting on the manner in which the interests are met and the question whether it is appropriate to define state-owned companies as strategic-interest companies. The audit covered a total of 21 strategic-interest companies, which had a combined turnover of about 33 billion euros in 2013. Neste Corporation and Fortum Corporation are the biggest of these companies by a wide margin. They had a combined turnover of about 23 billion euros, which was approximately 70 per cent of the turnover of all strategic-interest companies.

The strategic interests for the companies are defined by the ministries responsible for strategic interests and approved by the Cabinet Committee on Economic Policy. Clear definition of the interests is important so that differences in interpretation can be avoided. The Ownership Steering Department in the Prime Minister’s Office has put the definitions of the strategic interests laid out for the companies into a single public document. Most of the definitions are sufficiently clear and easy to understand. The strategic interests of the state can also change over time. For this reason, it is important to review the interests from time to time in order to ensure that they are in accordance with the latest requirements and also to examine which operations or companies are strategically important to the state. Ownership steering in the Prime Minister’s Office has been conducting reviews of the interests in cooperation with the ministries responsible for them. However, the Cabinet Committee on Economic Policy did not make any decision concerning a review of the interests in spring 2015 even though a decision had been drafted for the committee.

The strategic-interest companies are steered in accordance with the steering procedures applied to limited liability companies and on the basis of the State Shareholdings and Ownership Steering Act (1368/2007) and the Government Resolution on State Ownership Policy (adopted on 3 November 2011). The content of the companies’ operations and focusing them in accordance with the strategic interests are mainly based on state ownership, the sector in which the companies operate and the tasks laid out for them. For a number of companies, ensuring that the interests are met is based on an agreement between the companies and the ministries responsible for them. The Ownership Steering Department and ministries have been cooperating with aim of ensuring that the strategic interests are considered in the steering of the companies even though no formal decisions have been made to establish the inter-ministerial working groups laid out in the resolution. It was not possible to assess the role of the strategic interests in

company-internal steering as no documented information on it was available.

It is impossible to give any precise estimates of the costs incurred by the state as it manages its strategic interests. In half of all strategic-interest companies, all operations concern strategic interests and the strategic interests also account for a substantial proportion of the operations in many other companies. For this reason, it is not possible to make a clear distinction between the costs arising from the management of the strategic interests and other aspects of financial management in the companies' operations. Many of the companies sell services or goods to the state on a market basis and five companies are also entitled to receive a compensation from the state for managing strategic interests. The sums paid as compensation are small. Most of the business operations of the strategic-interest companies have been profitable.

Strategic interests are mostly reported as part of the annual reports on the companies' operations. Most companies only report on the implementation of the interests in a cursory manner and the reporting is usually limited to cases where the companies have special obligations. However, there is also separate reporting on the interests when there is a need to review them. Based on the audit, it is impossible to say how well the overall strategic interests of the state have been implemented through the companies. According to the ministries' own estimates, most of the interests have been implemented. However, ministries do not have unified reporting practices and not enough documented information has been produced to support the estimates. More systematic assessments and reporting would make it easier for the Government to adopt a more proactive approach to decision-making in matters concerning the strategic interests.

On the basis of audit, it can be considered appropriate that the state has a list of companies specified as strategic-interest companies and that it has laid out the interests for them and that the ministers can discuss all aspects of the list in the Cabinet Committee on Economic Policy.

Recommendations of the National Audit Office

The National Audit Office recommends that

1. the Ownership Steering Department in the Prime Minister's Office should, in cooperation with ministries, assess the relevance of the current strategic interests and submit the matter to the Cabinet Committee on Economic Policy for decision
2. the Prime Minister's Office should, in cooperation with ministries, assess whether there are sufficient grounds for keeping all existing strategic-interest companies on the list or whether the state could also ensure its strategic interests in ways other than by defining companies as strategic-interest companies
3. the Prime Minister's Office should, in cooperation with ministries, ensure that the manner in which the strategic-interest companies contribute to the implementation of the strategic interests is reported to the Cabinet Committee on Economic Policy on a systematic basis. The assessment of the manner in which the strategic interest is implemented should be the task of the ministry responsible for the interest.