

# Conclusions and recommendations of the National Audit Office

## Lifecycle management of central government assets – machinery and equipment

The audit examined the practices applied to the lifecycle management of central government machinery and equipment assets. In the final accounts of 2019, the book value of the state-owned machinery and equipment entered in the balance sheet was about EUR 600 million. Annual investments in this asset group have amounted to about EUR 100 million. The audit covered those machinery and equipment assets of central government whose financial value is significant, i.e. vessels, vehicles, and other machinery and equipment. Of the organizations managing these assets, the National Audit Office selected the Finnish Defence Forces, the Finnish Border Guard, the National Police Board, the Finnish Meteorological Institute, and the Finnish Environment Institute to the audit.

The lifecycle management was examined from the planning of the procurement to divestment. Good lifecycle management takes into account the entire asset lifecycle already in the procurement planning phase. Assets are maintained in a techno-economically timely manner and divested in the most overall economical manner before the maintenance costs become too high.

### Central government machinery and equipment assets are managed well as a rule

As a rule, the audited authorities manage the central government machinery and equipment assets well. There have been differences in how the authorities have been able to take the lifecycle costs and utilization rates into account in the procurement phase. The authorities plan and monitor the use and costs of their assets, and all of the audited organizations have utilized the monitoring data at least to a certain extent. However, all authorities do not have plans for divesting their assets. Purchases are implemented and assets are managed most systematically in the organizations that make financially significant investments on a regular basis, such as the Defence Forces and the Border Guard.

The audited authorities had hardly made any sensitivity analyses for different scenarios. It would be important to take sensitivity analyses into account in investment calculations and risk impact assessments. There is more insecurity involved in the utilization rate and cost coverage if machinery or equipment is rented to external actors in addition to being used in the organization's own operations. In this case, the utilization rates may vary considerably during the lifecycle of the machinery or equipment, which should be observed in the calculations during the procurement phase by means of sensitivity analyses.

Good lifecycle management of machinery and equipment assets requires expertise. Expertise is needed both in the procurement phase and in arranging the asset management in a techno-economically sensible manner. Based on the audit, the authorities have mainly had good expertise and used largely maintenance agreements in the technical maintenance of their assets.

## Management of central government vessel assets has been mixed from the lifecycle perspective

The costs resulting from the purchase of the offshore patrol vessel Turva for the Finnish Border Guard and the major overhaul of the research vessel Aranda of the Finnish Environment Institute were considerably higher than originally planned. The first authorization granted for the purchase of Turva in 2009 was EUR 57 million, but the amount used for the purchase between 2009 and 2014 totalled EUR 94 million. The Border Guard originally planned to purchase two vessels but was granted an authorization to purchase only one, which may have increased the need to equip the vessel. The authorization granted for the major overhaul of Aranda in 2015 was EUR 11 million. The amount used for the overhaul was slightly less than EUR 16 million.

The Border Guard manages its fleet as a whole in a systematic and appropriate manner from the perspective of lifecycle management. The offshore patrol vessel Turva, which was brought into use in 2014, is used only in the central government's own operations, which are fully funded by budget appropriations. The vessel has a high utilization rate. Its usage and costs are planned and monitored systematically. The annual maintenance costs of the vessel were identified quite accurately already in the procurement phase, and major repairs and a divestment time were clearly defined for the vessel.

The research vessel Aranda, managed by the Finnish Environment Institute, underwent a major overhaul in 2017–2018. The vessel is used for Finland's marine research obligations for about 100 days per year. The Institute has also tried to market the remaining days to other actors. The estimates made before the major overhaul of the actual days of use proved to be too optimistic. For the time being, the vessel is used less than planned, as other actors have shown less interest in its shared use than expected. This means that the Finnish Environment Institute has had to cover a larger share of the costs than estimated. The sensitivity analyses should have given more consideration to the impact of fluctuating demand on the amount of compensation for the use of the vessel.

## Vehicles and other machinery and equipment are maintained largely by service agreements

The National Police Board and the Finnish Defence Forces manage their vehicles systematically as a whole. The organizations operate partly differently in the procurement and maintenance of their vehicles, but there are techno-economical grounds for the differences. The National Police Board purchases almost all of their police vehicles, because the vehicles need to be equipped with many accessories. The Defence Forces, in turn, purchase some of their vehicles, but the brigade-level units get their unequipped light fleet largely through leasing. Both of these two authorities monitor the costs per each vehicle and utilize the information when planning to replace the vehicles. Regardless of this, vehicles are sometimes used for too long from the economic perspective, when replacement vehicles are not available.

The lifecycles of the satellite dish of the Finnish Meteorological Institute and the flight simulator of the Finnish Defence Forces are managed by maintenance agreements, which is appropriate in the case of these equipment based on the audit. The existing system of satellite dishes, into which the new satellite dish was integrated, was taken into account already in the procurement phase. The profitability of the flight simulator purchase was assessed by calculations that took the lifecycle

costs into consideration. The lifecycles of both the satellite dish and the flight simulator have been managed systematically as a whole.

### The lifecycle of investments is not given sufficient consideration in budget planning

When preparing the budget, the ministries should provide information on expenses expected to result from investments in the coming years. In addition to the acquisition cost, they should also present the maintenance costs for the entire lifecycle of the investment. In the case of the purchases examined, this information had not been provided sufficiently comprehensively. Information provided in connection with budget proposals on expenses of the coming years is particularly important if the maintenance costs of the investment are significant in relation to the agency's operating expenses.

To highlight and assess the risks of the investments, it would be important to use sensitivity analyses more often. Under the State Budget Act, the State Treasury is authorized to issue provisions on details of the management of accounting in this regard. For the time being, the only provisions or instructions issued on investments have been issued from the perspective of bookkeeping.

With the exception of defence materiel, investments on machinery and equipment have been presented under the General Strategy and Outlook of the budget proposal for 2020 as outturn for the years 2012–2018. However, no summary table of the investments of the coming years has been drawn up, although investments are specifically directed to the future. A table on coming years' investments would make it possible to increase systematic planning, transparency, and openness, even though it would not be politically binding for the part extending over the Government term. The development of systematic planning of investments should be part of the more extensive development of operational and financial planning. Some of the authorities already make internal longer-term plans for investments in machinery and equipment.

### The responsibility for good management of fixed assets lies with all central government organizations

Based on the audit, both the overall picture of fixed assets and the overall management of the assets should be improved. Asset management should take into account both the existing assets and new investments. It is essential that the ministries and government agencies and institutions commit to good asset management.

### Recommendations of the National Audit Office

1. The Ministry of Finance requires all ministries to provide the information on investments specified in the provisions on the drafting of the budget proposal.
2. The State Treasury instructs government agencies and institutions to make investment calculations and to utilize them in the budget process and internal accounting, and it has also included sensitivity calculations in its guidelines.
3. The Ministry of Finance instructs government agencies and institutions to plan and compile information on any investments the impact of which extends over a single operational and financial planning period.