



RiR 2017:37

## The Government's corporate governance of state-owned enterprises with a public policy assignment

### Summary and recommendations

Less than half of the state-owned enterprises have specifically adopted public policy mandates, (hereafter “policy mandate”).<sup>1</sup> The policy assignments are decided by the Riksdag and aim to generate effects other than financial yield for the owner. These mandates are directly or indirectly publicly financed. The Government shall structure the corporate governance of the enterprises to ensure compliance with the Riksdag’s decisions.

The main rule for both privately and publicly owned limited companies is that they must create profits for the owner. Policy mandates, on the other hand, are not aimed at achieving financial yield but rather at achieving other targets decided by the Riksdag. There may therefore be potentially conflicting targets when policy mandates require

<sup>1</sup> 23 out of a total of 47 state-owned limited companies currently have policy mandates: Almi Företagspartner, APL, Arlandabanan Infrastructure, Göta kanalbolag, Kungliga Dramatiska teatern, Kungliga Operan, Miljömärkning Sverige, RISE, Samhall, Saminvest, Statens bostadsomvandling, SEK, SOS Alarm, SSC, Sveaskog, Svedab, Svenska Spel, Swedavia, Swedfund, Systembolaget, Teracom Group, VisitSweden and Voksenåsen. Saminvest is in a start-up phase at present. Within the framework for the audit, a survey has been sent to CEOs and chairpersons of enterprises with a policy assignment. Saminvest has not taken part in the survey. However, Saminvest has participated in the reviews of owner dialogues and annual reports included in the audit.

resources, which impacts the ambition level of financial targets. The corporate governance of enterprises with policy mandates therefore requires specific processes and expertise in corporate governance with regard to clarifying the mandates, how the policy mandates are to be financed and addressing potential conflicts and complex assignments.

The Committee on Industry and Trade notes in its treatment of the 2014 report on enterprises with state ownership that it is important to establish the cost of the policy mandates. The Committee suggests that information on the cost of implementing a policy mandate provides a better basis for prioritising how taxpayer funds are to be used.

In its annual letters to the Riksdag regarding the activities of state-owned enterprises, the Government has noted that the policy mandate is often outlined in the business description of the articles of association, but not always its intended public benefit. For the past few years, the Government has conducted work with “public policy targets” for enterprises with a policy mandate. The purpose of the public policy targets is to ensure that the policy mandates are implemented effectively, to specify the cost of this implementation, to enable the monitoring and reporting of mandates to the Riksdag and other stakeholders, and to clarify the prerequisites for reaching the financial targets.

The Swedish National Audit Office (SNAO) has examined whether the Government’s corporate governance of enterprises with a policy assignment has been adapted in order to create conditions favourable to the effective implementation of the policy mandates determined by the Riksdag.

This report answers the following audit questions:

1. Has the Government formulated and established clear targets for the policy mandates?
2. Does the Government address potentially conflicting targets in the policy mandates?
3. Does the Government follow up on the policy in order to secure relevant information for corporate governance and reporting?
4. Does the Government report on the policy mandates to the Riksdag in an appropriate manner, and does the Government work to ensure that the reporting by enterprises is appropriate?

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## Results of the audit

### Has the Government formulated and established clear targets for the policy mandates?

Clear targets allow better possibilities for monitoring and thereby modification of the corporate governance and directives where required. In addition, better information obtained for reporting to the Riksdag and other stakeholders.

The Government notes that in the articles of association for enterprises with a policy mandate, the business description often includes the specially adopted policy mandate, but not always its public utility. The SNAO considers this to be noteworthy. The assessment of the SNAO is that many enterprises have mandates that are general in nature. According to the SNAO assessment, the enterprises that have been given public policy targets have significantly clearer objectives compared to enterprises that have not yet been issued such targets. The public policy targets process is a vital tool in clarifying the policy mandate of each company. The departure point for the Government is for public policy targets to be established for all enterprises with a policy mandate. Since 2013, public policy targets have been set for 8 out of 23 enterprises with a policy mandate. For a majority of enterprises with a policy assignment, the Government has not yet examined whether public policy targets can be established, and for this group the targets are not as clear. The assessment of the SNAO is that the work with enterprises' public policy targets is progressing very slowly. If the pace does not increase, it may take another seven years before all enterprises with a policy assignment receive public policy targets. In light of the positive effects that have been achieved, it is reasonable to increase the pace of the process with producing public policy targets.

### Does the Government address potentially conflicting targets in the policy mandates?

The corporate governance of enterprises with a policy mandate is challenging given that the enterprises have multiple targets. The Government has an integrated method for working with the different types of targets that state-owned enterprises may have; financial targets and public policy targets adopted by the owner as well as the strategic targets for sustainable business determined by the Board. The method needs to be applied to all enterprises and not just a select few, as is the case today.

The Government has largely given the company boards responsibility for addressing conflicting targets between the policy mandate and the financial targets. In the SNAO

survey, 13 enterprises indicated that the policy mandate is under-financed or that there are long-term financing issues. Three of these stated that they are unable to fully fulfil their mandate. Among the survey responses, only two enterprise representatives stated that the owner has provided any directions on how to handle potentially conflicting targets. This sets the bar high for follow-ups and reports relating to the policy assignments to carefully consider such conflicts.

According to the survey, several of the enterprises would also like financing matters to be handled with a more long-term approach in dialogue with the owner, which in some cases would reduce the risk of conflicting targets.

## Does the Government follow up on the policy assignments in order to secure relevant information for corporate governance and reporting?

The state's ownership policy, which is included in the Government's annual letter to the Riksdag regarding the activities of state-owned enterprises, states that the targets set for the enterprises shall be followed-up in dialogue between the owner representative and the chair of the board. In this dialogue, the parties shall discuss target effectiveness in relation to targets as well as possible measures to meet the targets.

The review indicates that effectiveness in relation to targets attainment was discussed in 70 per cent of owner dialogues and at varying depth. SNAO sees a tendency for these discussions to be more limited in enterprises without public policy targets and therefore has the impression that the process of using such targets enables more in-depth and simpler follow-up.

SNAO's assessment is that there has been limited consideration paid to matters relating to costs entailed by policy mandates and the risks of not attaining the targets in owner dialogues. The same is true for policy mandates and competition issues. Nor do the owner dialogues contain material regarding the companies' fulfilment of their policy mandates compared to equivalent operations within and outside of Sweden.

SNAO notes that the administration of the state-owned enterprises has become more knowledge-oriented and professional over time. The administrative organisation at the Ministry of Enterprise and Innovation is the Government Offices' knowledge centre when it comes to company administration; however, the review indicates that their expertise is utilised to varying degrees when enterprises with policy mandates are being managed by other ministries. This circumstance could affect the overall quality of the Government's work with the policy assignments.

## Does the Government report on the policy mandates to the Riksdag in an appropriate manner, and does the Government work to ensure that the reporting by enterprises is appropriate?

Every year, the Government submits a letter regarding the activities of state-owned enterprises to the Riksdag. The annual letter contains no cohesive account of the basic conditions for the policy mandates, such as the corporate governance of the enterprises, possible target conflicts or the competitive implications of the policy assignments.

For enterprises with policy mandates financed through public appropriations, the Government accounts for the operational results in its proposed budget bill. The SNAO is of the opinion that this shows that it is possible to give a report that is both clear and has a high information value.

The SNAO also notes that the enterprises' external reports in many cases lack information regarding central circumstances in regard to the policy mandates, such as the companies having an assignment set by the Riksdag, the costs of these mandates and possible target conflicts. The SNAO makes the assessment that the state's corporate governance can be improved in this regard.

## Recommendations

The policy assignments are of central importance to the state's ownership of enterprises. The SNAO therefore deems it important that the state's corporate governance of companies with policy assignments is further developed towards clarity, transparency and professionalisation. The SNAO has noted shortcomings, partly in terms of how systematic the corporate governance is, as the review indicates quite large variations between the companies, and partly in terms of the depth of the Government's follow-up and reporting of the policy assignments, not least in terms of conflicting targets and financing of policy assignments.

The SNAO notes that the administrative organisation over time has developed a professional organisation for the financial governance of the enterprises. This development has been motivated. The SNAO makes the assessment that the state's corporate governance, including follow-up of the enterprises' policy mandates, need to be given more attention in terms of competency and distribution of the administrative organisation's resources for analysis and capacity to ask for and assess documentation from the companies.

The Swedish National Audit Office gives the following recommendations to the Government:

- Accelerate the implementation of the policy target process so that as many companies as possible can be provided with policy targets within a foreseeable future. This requires the securing of sufficient resources for this work.
- Develop the annual letter to the Riksdag regarding the activities of state-owned enterprises to include a cohesive account of the policy mandates. This account should provide a clear idea of the corporate governance for the companies, effectiveness in relation to targets, conflicting targets between financing and implementation of the mandates and the competitive implications of the assignments. The reporting of public appropriations in the proposed budget bill can serve as a model for how to report the implementation of the policy assignments also for those companies that are not financed by appropriations.
- For companies that do not need to report the costs of their policy mandates separately in accordance with the Swedish Act on Certain Financial Links (2005:590), the Government could consider requirements for equivalent reporting.
- Work to ensure that the companies' annual reports become clearer. The annual reports should clarify that the companies have a policy mandate decided by the Riksdag and indicate
  - which policy targets have been established and to which extent they are fulfilled
  - which costs are associated with the policy mandates
  - whether questions relating to conflicting targets between policy assignments and financial targets have been analysed and, where appropriate, provide an account of such analyses and possible measures taken as a result
  - whether the competition aspects of the policy assignment have been analysed and, where appropriate, provide an account of such analyses and possible measures taken as a result
  - which external comparisons have been made that are relevant to the policy assignment and, where appropriate, give an account of these comparisons.