



Extract from the report to the
Public Accounts Committee on
how the Danish state exercises
its ownership over companies

June
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1. Introduction and conclusion

1.1. Purpose and conclusion

1. The report concerns how the Danish state exercises its ownership over companies.
2. The state owns a number of companies that provide essential public services to the Danish community. The ownership includes limited companies as well as other similar company structures with boards of directors, like, for instance, independent public companies or independent administrative units. The Ministry of Finance is responsible for the development of the government's ownership policy, which defines the framework for managing the different companies owned by the state.
3. Rigsrevisionen launched the study in June 2014 at the request of the Danish Public Accounts Committee. The committee members asked Rigsrevisionen to compare the characteristics of the organisation of independent public companies with the organisation of government-owned limited companies and indicate the upside and downside of these two types of governance from the perspective of government.

In this report, the term "companies" refers to:

- Independent public companies;
- Independent administrative units;
- Government-owned limited companies.

When required, reference will be made to the specific types of companies listed above.

The concepts of government-owned and state-owned will be used interchangeably in the report.

The six questions asked by the Public Accounts Committee appear from box 1.

BOX 1. QUESTIONS ASKED BY THE PUBLIC ACCOUNTS COMMITTEE

	Addressed in
What strategies and policies govern the Ministry of Finance's decisions on governance structure?	Section II
What impact has the organisation of the companies on the achievement of the political targets set and on the provision of public services to the community?	Sections III and IV
What impact has the organisation of the companies on the possibilities of running the companies effectively?	Section III
How do the ministries supervise the companies' provision of public services to the community?	Section IV
How do the ministries ensure the balance between effective commercial operations and the provision of public services to the community?	Sections II, III and IV
What impact has the governance structure on the companies' presentation of accounts, audit and the Danish parliament's oversight with the companies?	Section II

4. The purpose of the study is to assess whether the Ministry of Finance and the ministries that own the companies have organised the governance of the companies in a manner that supports delivery of the required public services to the community as well as the effective commercial operation of the companies. The Public Accounts Committee's questions are answered through Rigsrevisionen's examination of the following:

- Has the Ministry of Finance defined a clear and adequate framework for the formation of companies and for exercising ownership?
- Has the management of the public services provided to the community and commercial operation of selected companies been appropriately organised by the ownership ministries, in accordance with the framework defined by the Ministry of Finance?
- Do the ownership ministries and the supervisory authorities adequately monitor the selected companies' provision of public services to the community and their commercial operation?

The government's ownership policy is described in the publication "Government as a shareholder" from 2004, which was updated in April 2015.

Key messages from the original publication have been included also in the updated policy.

CONCLUSION

The framework set for the state's ownership of companies is defined in the government's ownership policy from 2004, which was updated in April 2015. It appears from the policy that the state should primarily seek to establish limited companies, because the set of rules defined for this type of company is clearer than the rules defined for other company structures. In recent years, however, the state has had a preference for establishing an increasing number of independent public companies, when called upon to found new companies. The creation of these companies has been preceded by specific considerations and they have all been established by law. Yet, the framework defined for these alternative company structures is not adequately described in the ownership policy, and it has therefore been left to the relevant ministries to develop the individual basis for managing the companies. This approach entails the risk that relevant issues are not addressed when the companies are established.

Rigsrevisionen finds that the Ministry of Finance should elaborate special attention points in the form of, for instance, a checklist that the ownership ministries could consult when they establish independent public companies, etc.

Because of the inadequate framework defined for independent public companies, the basis established for managing the individual companies is in some areas not entirely accurate. This lack of clarity is reflected, for instance, in uncertainty about the scope of the minister's involvement in the independent public companies, and in the latitude of the boards. Moreover, the basis of management laid down for several of the independent public companies does not clearly indicate how the companies can combine achievement of commercial targets with the provision of public services to the community. Rigsrevisionen's examination shows how essential it is to ensure also a clear framework for the execution of important tasks in relation to subsidiaries, for instance.

In a few cases, the basis of management concerning subsidiaries of independent public companies needs to be improved, for instance, in relation to divestment of subsidiaries.

The framework for independent public companies has been clarified in the updated version of the government's ownership policy. Taking into consideration the steadily growing number of independent public companies, Rigsrevisionen finds it unsatisfactory that the Ministry of Finance has not implemented this clarification much earlier. Setting ambitious financial targets is a key task for an active owner of a company. Generally, the ownership ministries have been clearer about their expectations to the commercial performance of the companies. Still, they have only to a limited extent defined commercial targets for the independent public companies, etc. This approach is clearly reflected in non-profit companies operating in non-competitive markets. In the opinion of Rigsrevisionen, the ministries should define targets also for these companies and through their supervision ensure that the companies are operating efficiently.

The ministries' management of the independent public companies has thus, only to a minor degree, supported the business aspects of the companies.

The examination shows that – irrespective of company structure – the ministries manage the companies' provision of public services to the community by means of performance targets and supervision, which support the companies in their efforts to resolve these tasks. Only in a few instances, has the supervision not been fully adequate or sufficiently documented.

Exercising ownership over companies is very different from the other administrative tasks performed by ministries. The examination shows that all ministries should work to improve elements of their management and supervision of companies. In particular, the Ministry of Business and Growth should focus on how it exercises ownership, for instance, by being more active in the development of performance targets and by strengthening its supervision of the business aspects of its companies.

The parliament has equal access to information on the companies, irrespective of their structure. The members of parliament can follow developments in the companies in connection with the mandatory submission of certain transactions for approval by the Danish Finance Committee, and by asking the relevant ministers questions. In addition, the Ministry of Finance publishes an annual report on the government-owned companies, which is, however, incomplete. The Ministry of Finance and the ownership ministries should join forces to ensure that the activities of all government-owned companies are addressed in this publication, which is an important source of information to parliament. The regulations concerning the financial statements and audit of government-owned companies also provide parliament with an opportunity to keep track of developments.