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RIGSREVISIONEN



Extract from Rigsrevisionen's report on
**salaries and benefits in
state-owned enterprises**
submitted to the Public Accounts Committee



1849
147.281
237
1976
114.6
22.480
908

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1. Introduction and conclusion

1.1. PURPOSE AND CONCLUSION

1. This report concerns salaries and benefits in six independent public companies and two independent administrative units (in the following referred to as SOEs – state-owned enterprises) that are wholly owned by the Danish state. The companies are DanPilot, DSB, Eksport Kredit Fonden, Energinet.dk, Finansiell Stabilitet, Naviair, Nordsønheden and Vækstfonden. Rigsrevisionen initiated the study in 2016, because findings made in connection with the annual audit indicated that salaries and benefits offered in some SOEs differed considerably from those offered in the public sector.

Over the past decades, an increasing number of traditional government institutions have been transformed into state-owned enterprises (SOEs). The enterprises are organised with a board with responsibility for strategy, and a management with responsibility for day-to-day operations. Generally, the board engages and determines the salary of the managing director, and the management hire the staff and determines their salary and benefits. The ownership ministries are responsible for ensuring appropriate composition of the boards in relation to the business areas and conditions in which the enterprises are operating, and they have overall responsibility for monitoring and assessing the performance of the SOEs.

Most of the enterprises have received a one-off payment from the government in connection with their conversion into SOEs; others are (co-)financed by public funds on an ongoing basis, and in some SOEs the government is liable for the loans and guarantees issued to the SOEs. SOEs represent important economic and societal interests and provide certain public services. Some of the SOEs also hold near-monopoly positions in their respective markets. Thus the SOEs are to a great extent managing public funds and the state continues to be involved in the enterprises in various ways. It follows that the SOEs are expected to manage funds in a financially responsible manner, including funds for salaries and benefits.

SALARIES AND BENEFITS

Salary level refers to the employee's base salary, pension contribution, fixed and temporary supplements, elements of performance-related pay/one-off remuneration and benefits. The value of benefits has not been calculated for the purpose of this study.

SOE

A state-owned enterprise (SOE) delivers specific public-sector services on a commercial basis and is not eligible for government grants.

OWNERSHIP MINISTRIES

The ownership ministries are the Ministry of Energy, Utilities and Climate, the Ministry of Business and Growth and the Ministry of Building.

SALARY LEVEL

Salary level includes base salary, pension contribution, fixed and temporary supplements, elements of performance-related pay/one-off remuneration.

Before the conversion into SOEs, Finansiell Stabilitet was a public limited company, and Vækstfonden and Eksport Kredit Fonden were foundations.

2. The purpose of the study is to provide an overall assessment of the salaries and benefits offered in the eight SOEs and show how salaries and benefits in the former government institutions have been affected by their conversion into SOEs.

Government rules and regulations concerning budgetting and appropriations, number of high-grade positions and pay caps do not generally apply to SOEs. According to the recommendations presented in the government's *Ownership policy* from 2015 and *Shareholder policy* from 2004, government-owned enterprises should offer competitive salaries and benefits without being salary-level leading compared with similar private enterprises. Offering the highest salaries may not only be the cause of pay drift for the employees in the respective enterprise and business sector and in the public sector in general, it may also distort competition between government-owned enterprises and private businesses.

3. Since most of the SOEs in the study were previously government institutions, we have decided to compare the salary levels of selected categories of employees in the eight SOEs with the salary levels applying to employees with the same educational background in the public sector. If no comparable categories of employees exist in the public sector, we have instead focused on whether the enterprises have set benchmarks that ensure that they do not become salary-level leading compared with their peers in the private sector.

The Ministry of Energy, Utilities and Climate, the Ministry of Transport and Building, the Ministry of Finance and the enterprises included in the study do not agree with Rigsrevisionen's comparison of SOE and public-sector salaries and benefits. The reason is that current legislation and provisions, and the recommendations of the *Ownership policy* and *Shareholder policy*, prescribe that the SOEs may compare themselves to their peers operating in private markets and business sectors in order to recruit and retain staff with the desired qualifications. This means that the SOEs, in principle, do not compare the salaries and benefits they offer with those offered in the public sector. However, Rigsrevisionen has noted that some of the SOEs like, for instance, Nordsøenheden, Naviair and DanPilot also – to some extent – apply the public-sector benchmark.

Ownership of most of the SOEs in the study is exercised by the Ministry of Business and Growth. Initially, the ministry considered it relevant to compare SOE and public-sector salaries and benefits, if the job functions were immediately comparable – irrespective of educational background – but adjusted for years of service and level of specialization. Subsequently, the Ministry of Business and Growth has, however, informed Rigsrevisionen that it does not accept the premise that engineers working in the public sector are comparable with engineers working in Vækstfonden; the ministry now finds it relevant to compare job functions rather than educational backgrounds.

Still, Rigsrevisionen considers it appropriate to compare SOE and public-sector salaries and benefits – taking into due consideration that work tasks may be different and that the SOEs have greater latitude in determining salaries and benefits. Rigsrevisionen finds a comparison relevant, because the state has established and owns the SOEs and is still (financially) involved in them in various ways. To this should be added that several of the SOEs manage public funds and provide certain public services.

CONCLUSION

The salary levels in the SOEs are generally more favourable than in the public sector; Rigsrevisionen found that average salaries for all the categories of employees included in the study were higher in the SOEs. Moreover, the study showed that the salary level in DanPilot increased when the enterprise was converted into a SOE in 2013.

However, Rigsrevisionen cannot conclude that the salary levels in the SOEs are unacceptably high, because the comparison made between the SOEs and the public sector does not take into consideration years of service, qualifications, job functions and range of tasks performed by the employees. It may be necessary to offer better salaries to employees with special expertise, but generally SOE salaries should not vary much from the salaries offered in the public sector.

The study shows that the average salary paid to selected categories of employees in Finansiel Stabilitet and Vækstfonden is considerably higher than in the public sector. For instance, venture partners in Vækstfonden, who are trained engineers, receive a salary that is 160 per cent higher than in the public sector. In 2015, these venture partners also received a bonus earned over nine years that increased their average annual salary to approximately DKK 3 million, which was 424 per cent more than their peers in the public sector were paid. In 2015, 33 to 71 per cent of total salaries paid to Vækstfonden's venture partners were performance-related.

Vækstfonden does not consider its salary level to be too high, since it is either 20 to 35 per cent or 70 to 80 per cent lower than the benchmarks set by the enterprise.

The gap between the two benchmarks demonstrates the importance of setting appropriate and well-defined benchmarks for the evaluation of salary levels.

The salary level for lawyers/economists in Finansiel Stabilitet is 55 per cent up on the level in the public sector. However, the benchmarks set by Finansiel Stabilitet show that the salary it is paying to three of its lawyers/economists exceeds the applied benchmark. Thus, Rigsrevisionen can conclude that Finansiel Stabilitet offers the highest salaries in the market in respect to these three employees. Vækstfonden as well as Finansiel Stabilitet have informed Rigsrevisionen that the salaries they offer reflect the level of expertise required.

The board determines what the members of management should be paid. According to the government's *Ownership policy*, SOE salaries should be competitive, but not the highest in the market compared with private companies. Rigsrevisionen has compared the salaries paid to the members of management in the SOEs with the salaries paid to government permanent secretaries, who are the highest paid in the public sector with similar responsibilities for large and complex areas of public service. According to this comparison, the management of DSB and Energinet.dk are paid considerably higher salaries than the average salaries paid to permanent secretaries. DSB has not worked out benchmarks for its managing director on a regular basis, whereas Energinet.dk's benchmarks show that its managing director's total pay package is 55 per cent lower than the applied benchmark.

Large groups of employees in several of the eight SOEs like, for instance, pilots in DanPilot and engine drivers in DSB, are not comparable with similar groups in the public sector. The study shows that DanPilot, DSB and Naviair have not benchmarked salary levels for the employees in the study whose salaries have been determined through local wage bargaining. Rigsrevisionen recommends that the SOEs apply benchmarks to ensure that they do not pay the highest salaries in the market.

Rigsrevisionen has also noted that the SOEs sometimes provide benefits and terms of employment that are not offered in the public sector. For instance, several of the SOEs provide the managing director, or all the members of the management, with a company car, or all employees with health insurance. Rigsrevisionen is aware that some of the benefits and terms of employment offered by the SOEs may also be less favourable than in the public sector: shorter holidays and fewer days off.

The Ministry of Business and Growth has informed Rigsrevisionen that the SOEs over which the ministry exercises ownership, will be instructed to develop remuneration policies that address issues concerning employees with critical qualifications, requirements concerning benchmarks for all employee groups and process for ongoing benchmarking. In continuation hereof, Rigsrevisionen also recommends that all SOEs – before they set their benchmarks – very carefully consider and define relevant benchmarks for employees with special expertise as well as for employees without special expertise. The ownership ministries should follow up on these action points to avoid that salaries in the SOEs become too high, in general.