

Metsähallitus - as a state enterprise and as a manager of nature conservation under the Ministry of the Environment

Metsähallitus is a state enterprise that administers more than 12 million hectares or about one-third of state-owned land and water areas in Finland. The audit focused on the Metsähallitus Group and how it manages the tasks assigned to it as well as performance management and owner control of the Group.

Metsähallitus is the only state enterprise in Finland that is steered by two ministries and in addition to business activities takes care of public administration duties. These include nature conservation tasks and the procurement of nature conservation areas, nature and recreation services, the implementation of game and fisheries projects and the supervision of wilderness areas.

The audit indicated that Metsähallitus is a functionally appropriate and appropriately managed whole in which the Natural Heritages Services unit operates effectively. Expertise in the organization related to the broad use of natural resources and nature conservation supports the management and coordination of its three main task areas (business activities, social obligations, public administration duties).

In the Metsähallitus Group business activities and public administration duties have been clearly differentiated in financing, budgeting and accounting. Public administration duties have been separated from business activities in accordance with legislation and transparency has been achieved. Public administration duties have been consolidated in a special unit (Natural Heritages Services). Arranging new public administration duties and reorganizing activities in the Natural Heritages Services unit required a lot of extra work in 2005 and 2006, but during this disruptive two-year process the unit was able to manage its nature conservation duties according to objectives.

The performance management process between the Ministry of the Environment and Metsähallitus functions well and cooperation

is close and smooth. Since Metsähallitus largely has a monopoly as a producer of nature conservation tasks, the Ministry of the Environment and Metsähallitus do not actually have a customer-producer relation. The present operating model can be considered appropriate in the present operating environment, but the efficiency benefit pursuable through competition is not attained.

Reporting by Metsähallitus to the Ministry of the Environment provides information on the implementation of objectives and the application of funds for Natural Heritages Services by type of expenditure, but it does not clearly explain the linkage between applied funds and the implementation of objectives or reasons for disparities between objectives and results.

From the viewpoint of risk management, managing business activities and controlling risks are the most difficult and crucial tasks of the Board of Directors. Consequently the audit evaluated the Board's activities by studying two cases involving the development and expansion of business activities: Foria's operations and the establishment of Morenia. Foria's domestic operations started at the beginning of 2002 and ceased at the beginning of 2004. Foria's foreign operations started in the second half of 2002 and ceased at the end of 2006. Morenia was established on 1 March 2006. In Foria's case the Board cannot be said to have failed to fulfil its management and control responsibility. However, the Board did not pay sufficient attention to gaps in risk management and risk analysis on the part of both the Foria Group and Metsähallitus. The Board discussed the establishment of Morenia extensively and thoroughly and adequately took into consideration the ownership policies and positions endorsed by the Cabinet Economic Policy Committee.

In managing public administration duties the Board's task and role are narrower and matters are discussed on a more formal basis and have a more similar content from year to year compared with the management of business activities. The Board has taken care of management tasks related to public administration duties properly. The present Board (1 April 2005 - 31 March 2008) has fulfilled the role assigned to it in the business enterprise reform from the viewpoint of owner control and performance management, assuming more responsibility for managing and supervising the business enterprise's activities.

When the State Enterprise Act was reformed, one goal was to clarify different organs' competence and control relations. In line with the Companies Act, the State Enterprise Act prescribes that an enterprise must have a managing director and that the Board of Directors appoints and dismisses the managing director. In other state enterprises, the Board of Directors in fact appoints and dismisses the managing director, but in the case of Metsähallitus the managing director is appointed and dismissed by the Government on the presentation of the Ministry of Agriculture and Forestry. On the basis of the audit, the procedure for appointing and dismissing the managing director in the Act on Metsähallitus breaks the state enterprise steering chain and related control and competence relations.

General social obligations set restrictions on Metsähallitus's activities and profit seeking. These obligations are taken into account in setting the result objective, as a limiting factor. In cooperation with the Ministry of Agriculture and Forestry, Metsähallitus conducted a project to develop a monitoring system for social obligations. This project conducted a thorough evaluation to determine the cost of taking social obligations into account in business activities. The monitoring system makes it easier to evaluate the feasibility of business activities and the state as owner can more easily take a position on the dimensioning of obligations. Work on the new monitoring system is still under way, however, particularly with regard to calculating and evaluating benefits.

A significant part of state-owned land and water areas, with a balance sheet value of about 3.5 billion euros, is managed by Metsähallitus, which operates outside the state budget. The proper monitoring of the entire state economy requires more precise information on these assets and their management in the report on the final central government accounts. Reporting to Parliament by the Ministry of Agriculture and Forestry and the Ministry of the Environment in the report on the final central government accounts on the implementation of the objectives that have been approved for Metsähallitus's public administration duties has been quite meagre, however. The chapter on the Ministry of Agriculture and Forestry's administrative sector has often noted only that objectives have been achieved, and the text has not mentioned public administration duties that are steered by the Ministry of the Environment. The chapter on the Ministry of the Environment has not mentioned Metsähalli-

tus's nature conservation work or the fact that nature conservation tasks are part of Metsähallitus's public administration duties.

The National Audit Office considers that Parliament presently receives adequate reporting information on the implementation of objectives to support its steering decisions. Broader information on Metsähallitus's public administration duties and other duties should be presented to Parliament in the report on the final central government accounts so that reporting forms a clear counterpart to the objective-setting instrument, i.e. the state budget. Reporting should pay more attention to public administration duties as a whole rather than individual measures or duties.

In 2006 the Metsähallitus Group had a turnover of about 268 million euros and booked a profit of about 72 million euros. The balance sheet totalled about 2,586 million euros and personnel 1,418 measured in person-years. The contribution to state revenue was about 65 million euros in 2006. Among Finland's state enterprises Metsähallitus has long been the largest and most steadily profitable, contributing about 40-60 million euros to state revenue every year in the present decade. Metsähallitus's core activity has always been the sale of timber, which has accounted for about 85-90% of turnover and an even larger share of profits annually. Metsähallitus's strategy has aimed to create a third pillar in addition to domestic forestry and public administration duties with the help of its business portfolio. So far it has not succeeded in this respect.

In 2006 Metsähallitus spent a total of 54 million euros on Natural Heritages Services. The balance sheet for public administration duties totalled about 1,005 million euros with a total labour input of 587 person-years. Land and water areas account for 95% of assets in the balance sheet for public administration duties.