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The formation of Svevia and Infranord

– inadequately fulfilled intentions

Summary

Svevia and Infranord were formed just over ten years ago. The Riksdag's intentions with forming the companies concerned the market as a whole, the companies specifically and the procurement expertise of the Swedish Transport Administration. The Swedish National Audit Office ("the Swedish NAO") has examined whether the Riksdag's intentions have been fulfilled. The Swedish NAO's overall conclusion from the audit is that the Riksdag's intentions have been fulfilled to some extent. For example, there are indications that competition has improved in one sub-market, that both Svevia and Infranord have improved their productivity since they were formed, and that the tender documentation of the Swedish Transport Administration has improved in part. At the same time, the audit shows that there are several sub-markets in which competition has not improved. Svevia and Infranord have had difficulty in achieving many of their financial targets, and the Swedish Transport Administration has not managed to promote innovation in its procurements.

Svevia and Infranord have improved their productivity but have had difficulty in achieving many of their financial targets

Neither Svevia nor Infranord have any productivity targets and do not follow up on their productivity growth. However, the Swedish NAO's calculations indicate that there has been slight growth in both companies' productivity since they were formed.

The Government, as the owner representative, has set three financial targets for Svevia and Infranord. The targets concern return on equity, equity/assets ratio and dividend. The Swedish NAO notes that Svevia and Infranord have had difficulty in achieving many of these financial targets. For example, Svevia has achieved its return target in of seven out of 14 years, while Infranord has achieved it in only three out of 12 years. Both Svevia and Infranord attribute these difficulties mainly to the existence of unprofitable projects. The Swedish NAO has not been able to assess whether Svevia and Infranord work effectively to fulfil their financial targets. This is because Svevia does not evaluate measures taken to address unprofitable projects, and the fact that Infranord does not specify any concrete measures against unprofitable projects, and it is unclear how such measures are evaluated.

The procurement expertise of the Swedish Transport Administration needs to be developed further to boost competition in the market

The Riksdag had numerous intentions for developing the market when Svevia and Infranord were formed. To a great extent, these concern the procurement expertise of the Swedish Transport Administration. The Swedish NAO has examined several indicators to assess the development of procurement expertise at the Swedish Transport Administration, and can ascertain that the number of tenders per procurement has increased in one of four sub-markets (railway investment), and that the average difference between the winning and the second-best tender in the Swedish Transport Administration's procurements has narrowed slightly over time. Both of these factors indicate that competition has improved somewhat in the market, and that the Swedish Transport Administration's tender documentation has improved in parts. At the same time, the Swedish NAO can conclude that this development is not clear-cut and that, for example, the number of tenders per procurement is largely unchanged in three out of four sub-markets.

The Swedish Transport Administration lacks measurable objectives for procurement expertise, but is working in many ways with measures that could help to improve it. This includes collecting feedback from suppliers and the industry. However, the Swedish NAO notes that the Swedish Transport Administration does not collect feedback on its procurements from tenderers that participated in the procurement but did not win the contract. The Swedish NAO also notes that the Swedish Transport Administration performs detailed follow-up of suppliers' feedback in some procurements, but not in all.

In order to boost productivity in the civil engineering market, the Swedish Transport Administration has worked to promote innovation in its procurements. However, the Swedish NAO considers that this work has not been successful. In recent years, the Swedish Transport Administration's supplier surveys have shown a clear

deterioration in this respect, and the share of procurements that promote development has also declined.

The Government's management does not ensure fulfilment of the intentions with corporatisation

The Government has an important role in ensuring that the Riksdag's intentions with the corporatisation are fulfilled. The Swedish NAO notes that the Riksdag's intentions included boosting Svevia's and Infranord's productivity and reducing the companies' dependence on the Swedish Transport Administration. However, the Government has not followed up on how productivity has evolved.

The Swedish NAO notes that the Government has not performed in-depth analyses ahead of setting the financial targets for Svevia and Infranord. The Swedish NAO considers that such analysis is important for setting the targets at the right level, with due consideration for risks to the companies' operations.

The Swedish NAO notes that the Government performs annual follow-up of Svevia's and Infranord's fulfilment of the financial targets through the annual report for state-owned companies. However, the Government has not utilised one of its governance tools – owner dialogue – to perform any systematic follow-up and evaluations of the companies' measures to improve fulfilment of the financial targets.

Recommendations

The Swedish NAO makes the following recommendations:

To the Government

- Consider following up on Svevia's and Infranord's productivity growth for the purpose of reporting back to the Riksdag.
- Perform systematic follow-up and evaluation of Svevia's and Infranord's measures to enable them to fulfil their financial targets.
- Perform in-depth analyses of Svevia and Infranord before setting new financial targets for the companies. This analysis should include a description of the different target levels and the risks to the companies' operations.

To the Swedish Transport Administration

- Continue to develop the work on improving procurement expertise. This work can include producing targets and measurable indicators for procurement expertise, collecting feedback from all tenderers after completed procurements, and performing follow-up – on a contract-by-contract basis – of suppliers' feedback concerning procurement expertise in all procurements. The collected feedback should be taken into account in the work on developing procurement expertise.

- Develop work on promoting innovation in procurements in order to boost productivity in the civil engineering market. This work can include taking account of the industry's and suppliers' feedback to a greater extent, including in terms of micro-management in contracts.