



Medium term expenditure frameworks and  
performance budgeting - Swedish experience

Cairo, November 24-25, 2008

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# Important elements in the Swedish budget process

- Clear fiscal targets and rules
- Annual decisions, but a medium term perspective
- Top-down decision making
- Scrutiny and follow up



# Fiscal rules

- Surplus target for general government
  - Expenditure ceiling for central government
  - Balanced budget requirement for municipalities and county councils
- Medium-term perspective

# Surplus target for general government

- Introduced in 2000
- 1 % surplus in net lending over the business cycle gives medium-term perspective and avoids pro-cyclicality
- Actual net lending is forecast to rise from 1.1 per cent of GDP in 2009 to 2.5 per cent of GDP in 2011
- At present. average net lending since 2000 is approximately 1.5 per cent of GDP

# Expenditure ceiling for central government (1)

- Introduced in 1997 and has never been exceeded
- Fixed 3 years in advance (the ceiling for 2011 will be fixed in BB for 2009)
- Includes all expenditure in the annual budget and the pension system outside the central government budget, but does not include interest on central government debt

# Expenditure ceiling for central government (2)

- Present government decides on a ceiling for a new year on the basis of:
  - An overall assessment of the fiscal rules framework and forecasts about public finances
  - The level should be in line with long-term sustainable public finances
  - The level as GDP ratio must fall slightly
  - The budget margin should be large enough over the 3-year period to cover uncertainties and forecast errors

# Balanced budget requirement for local governments

- Applies to all individual entities of the sub-national government sector
- ‘Good economic management’
- Budgets shall be in balance ex ante and ex post
- Ex post deficits shall be compensated for with surpluses of the same size in the coming 3 years

# Top-down budgeting

- In cabinet and internal budget process
  - Cabinet meeting sets priorities
  - Spring Fiscal Policy Bill and Budget Bill
    - Spring Fiscal Policy Bill: overall policy priorities, economic baseline and future challenges for the economy, fiscal sustainability and starting point for concrete proposals in the BB
    - Budget Bill: allocates appropriations according to policy priorities
- In parliamentary decision making
  - Decisions are taken on an overall level
  - Decisions on expenditure areas
  - Decisions on appropriations

# Performance management – the Swedish context

- A control system that involves collecting information, and analysing and assessing the results against defined tasks (or goals)
- Includes the economic framework – resources appropriated and used
- Results are assessed along the lines of both how effective assignments are fulfilled, goal attainment and resource consumption

# How do we work with performance management? (1)

- Parliament approves funds
- Parliament establishes goals for different expenditure areas
- Budget Bill: Government submits a statement of operation for each expenditure area
- This is intended to be a limited part of the foundation for the budget proposal



# How do we work with performance management? (2)

- Annual letter of instruction to agencies:
  - may specify how funds can be used
  - contain instructions on how to report and on what
- Annual report for each agency
  - contain both financial and non-financial information
- External audit
- Objectives and results dialogue
  - once a year between the agencies management and the responsible line ministry

# The use of performance information in the budget process

- As of the 2001 Budget Bill, a uniform structure was introduced for government activities, i.e. Policy Areas (PAs)
- A uniform structure:
  - will enable Parliament to relate results clearly to the politically stipulated goals
  - will help illustrate how different measures work towards shared goals and how they interact in order to best contribute to attaining those goals
  - will facilitate comparisons between different areas and make it easier to prioritise
- Until 2008 the budget expenditure was divided into 48 PAs (90%)

- Goals for PAs were proposed by the government and approved by Parliament

# Swedish experience

- The common activities structure does not support
  - the creation of a coherent goal-hierarchy for state activities
  - a summary of results and costs
  - a connection between performance information and the budget proposal
- The conception that presented results will impact decisions for future distribution of resources has not been realized
- It is not possible to base reporting of results to Parliament on the performance information that the agencies provide
- The system gives rise to extensive efforts on a yearly basis principally for the agencies, but also for the government offices
  - The benefits of these efforts are doubtful

# Changes from 2009

- The uniform activities (PA) structure will be abolished
- One or more goals for expenditure areas are approved by Parliament (proposed by the government)
  - This is like the situation before the 2001 Budget Bill!
- It is for the standing committees and ministries concerned to agree upon the performance information that has to be presented in the Budget Bill
  - what kind of information,
  - how often,
  - for what period, etc.

# Can expenditure frameworks and performance budgeting be integrated?

- It is possible to relate at an overall level
  - Medium-term expenditure frameworks with performance budgeting
  - Performance information presented for expenditure areas (a part of an area) to proposed frames for expenditure areas or for appropriations
  - **BUT**, the connection between these two dimensions is a subtle one
- Challenge
  - To ensure that a fundamental and dynamic follow-up is carried out in the budget process, between the standing committees and ministries responsible

## Concluding remarks

- The government wants to use performance information in a more strategic and in a more long term perspective
- Agencies must present - and be assessed - on the basis of results that they can affect
- A full examination of agencies performance often need more information than what is regularly monitored
- Performance information must rely on what is practical and useful
- Indicators create incentives
- Connection results and resource distribution is



Thank you for your attention!

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