Budgeting in Finland

by

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1. Introduction

The budget is the most fundamental and important document of governments. It is the key economic document in that it allocates a significant share of a nation’s gross domestic product, over half in some OECD member countries. It is the key program policy document in that governments establish their policy priorities in concrete terms in the budget through the allocation of funding. It is the key management document in that the basic operational aspects of government ministries and agencies are established in the context of the budget. Furthermore, the budget provides the basic architecture for overall decision-making and accountability in government. This architectural design has a significant impact on overall government performance.

The three basic objectives of a budgeting system are as follows:¹

● to instil and maintain aggregate fiscal discipline (i.e. to ensure the government does not, overall, spend more than is necessary to achieve its collective policy objectives);

● to allocate (and reallocate) resources in accordance with changing government priorities (i.e. to spend on what is deemed politically most important – allocative efficiency);

● to promote efficiency in the use of budgetary resources to delivery programs and services (i.e. to encourage operational efficiency).

It is also important that these basic objectives of budgeting be arrived at in a transparent and accountable process. The role of Parliament is of great importance in this respect.

The OECD Reviews of Budgeting Systems aim to assess how well a country’s budget process performs against these objectives. They also provide an overview of the budget process in the country under consideration and offer, through the OECD’s unique peer review process, an opportunity for other member countries to comment on specific budgeting practices in the country under consideration.

The Secretariat’s background report was compiled during a visit to Helsinki where interviews were conducted with officials from the Ministry of Finance, line ministries, agencies and the Finance Committee of the Finnish Parliament. The Secretariat would in particular like to express its gratitude to Mr. Sauli Niinistö, the Minister of Finance and Ms. Maria Kaisa Aula, MP, the
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The views expressed in the report are those of the Secretariat and should not be attributed to any organisation or individuals consulted for this project.

2. **Budget formulation process**

2.1. **Introduction**

Finland has had a remarkable budget experience during the past decade. Finland’s public finances have traditionally been fairly balanced. In 1990, Finland had one of the lowest levels of debt among OECD member countries. Then, in the early 1990s Finland’s economy took a nosedive. This was the consequence of the bubble economy bursting and the collapse of markets in the Soviet Union. In 1991-92 alone, GDP declined by a total of more than 10%. Unemployment rose from 4% in 1990 to 18% in 1993. Government deficits averaged 8-10% of GDP during the early 1990s. Finland’s level of indebtedness increased from about 10% of GDP to reach almost 70% of GDP at its peak.

Recognising the severity of the problem, the Finnish authorities embarked in the early 1990s on a fiscal consolidation program that is without equal among OECD member countries. In a series of measures, expenditures were significantly reduced throughout the period. By the end of the 1990s, central government expenditures as a percentage of GDP are estimated to have been almost 8% lower than they would have been without these measures. Most of the expenditure reduction packages were ad hoc in nature and often assembled at the last minute in response to crisis, especially a run on the currency. In one memorable weekend, the government agreed on measures that decreased expenditures by 2% of GDP.\(^2\) As a result of these measures and due to strong economic growth, Finland is now once again enjoying budget surpluses and paying down accumulated debt. Finland’s budget position is, however, especially vulnerable as the ageing of the population will affect Finland more significantly than most OECD member countries.\(^3\)

This section is devoted to a discussion of the budget formulation process in Finland, including detailed commentary on individual aspects of it.

2.2. **Coalition agreements**

Finland is a parliamentary system governed by a coalition of several political parties in recent years. When a new government takes office, it issues
its Government Program, an agreement among the political parties concerning the main policies of the government during its term of office. This is a constitutional requirement, not just a political tradition. Box 1 excerpts the budget policy provisions of the current Government Program.

Box 1. Budget policy of the current government

- While pursuing a tight budgetary policy, the government will seek, during its term of office to ensure a structural surplus in central government finances and to achieve a reduction in the central government debt ratio by the end of its electoral terms to below 50% of GDP. This will provide leeway to cope with potential cyclical fluctuations and pressures on future government income and expenditure brought about by the ageing of the population.

- Throughout its term of office, the government will seek to maintain central government expenditure, including interest payments, in real terms at the level of the 1999 budget proposal. This will presuppose a tight budgetary policy.

Source: Excerpts from Government Program (Coalition Agreement), April 1999.

The OECD has previously characterised the budget policy of the current government as being “not very ambitious”. An upward revision in economic growth and sizeable privatisation proceeds readily achieved the debt targets. Central government debt now stands at 45.7% of GDP, down from 56.5% of GDP in 1999. Large “windfalls” created by lower interest expenditures and unemployment benefit payments created significant leeway for expenditure growth in other areas while maintaining aggregate spending at their 1999 levels in real terms. In any event, aggregate expenditures have grown by 1% of GDP in real terms.

Despite this, the importance of the Coalition Agreements is great. Recently, it has helped the Minister of Finance in restraining budget requests by spending ministers during the annual budget process. The current Coalition Agreement provides for explicit targets for overall budgetary policy rather than discussing budgetary policy in general terms. The role of the Coalition Agreement could, however, be enhanced by providing still more detailed targets and using it as a primary vehicle for achieving reallocation between ministries. A senior official noted that “the only way to achieve reallocation between ministries is during the negotiations of the Coalition Agreement – before ministers know which ministries they’ll each get and thus start defending their turf”. This does, however, require a sophisticated
medium-term expenditure framework, something that is currently lacking in Finland. The need for such a framework is further detailed below.

It is important to recognise that the Coalition Agreements are formulated outside of the formal governance structures of the budget process. This can create challenges for good governance as the Coalition Agreements have such a significant impact. The current process would appear to work very well, but consideration should be given to the Ministry of Finance having a more formal and transparent role in advising the political parties in this area when the Coalition Agreements are being negotiated.

2.3. Annual budget process

The annual budget process starts each year with spending ministries submitting their initial budget requests to the Ministry of Finance in the form of operating and financial submissions for the next year and projections for the following three years. This usually happens at the end of December or early January. The Ministry of Finance will have sent a Budget Circular in October highlighting the budgetary aspects of the Coalition Agreement and providing technical standards for the submission of the budget requests. These plans request funding at the level of each appropriation and are divided into two categories – continuation of existing policies (baselines) and requests for new policy initiatives. For each ministry, these submissions consist of a cover note of three to five pages highlighting the main points of the request, a summary of the operating and financial plan or the whole plan (15-50 pages),

Box 2. Economic assumptions

The economic assumptions applied in the budget are prepared by the Economics Department of the Ministry of Finance. Comprehensive assumptions are prepared three times a year – in February (for the government spending limits discussion), in May and in August (for the government budget session). A smaller scale exercise is carried out in November to verify that no major changes have occurred prior to Parliament’s enactment of the budget.

The assumptions are very transparent with each major variable clearly stated. There is no independent body that verifies the assumptions, but comparisons are made with those of other institutions involved with economic forecasting.

The Ministry of Finance does not employ a systematic prudence factor. It is believed that such a prudence factor would not be politically viable in Finland.
and a proposal for drafting the spending limits (up to 70 pages). Performance
information is contained in the requests, although these vary from ministry to
ministry as is discussed fully in Section 4.

Although the operating and financial submissions do contain a
projection for the following four years, they are not taken very seriously in
Finland. The starting point each year is not Year 2 of the previous year’s plans,
but the approved budget for the current year. A completely new set of
projections is made each year with no documented reference or reconciliation
with the previous year’s plan, i.e. they are not rolling plans. The forward
projections made each year often appear to be made with a very token effort.
The reason for this would appear to stem from the budget crisis of the
early 1990s which seems to have conditioned all participants in the Finnish
budget process to have a sceptical attitude towards multi-year budget
projections. The comment was made that so many factors could impact on the
out-year projections that it was not appropriate to employ a strict medium-
term expenditure framework.

A formal medium-term expenditure framework would, however, be very
important. The MTEF’s importance is not so much in estimating expenditure
as it is strengthening government’s political commitment to medium-term
aggregates, and thereby creating predictability for external players. In practice
it would form the basis for more detailed budgetary policy aspects of Coalition
Agreements, which in turn would serve to exert more discipline on the annual
budget process. In this context it needs to be emphasised that medium-term
frameworks are living, rolling documents that are updated with new
information, whether that is new policy initiatives or changes in outside
parameters, such as level of interest rates or unemployment levels. The
Coalition Agreement could make explicit account of such outside factors. The
importance is to reconcile and explain the reasons for any deviations.

During the following two months, bilateral discussions take place
between the Finance Ministry and the spending ministries on their respective
proposals. First, civil servants meet to clarify the requests and to establish a
common understanding of any assumptions behind the requests. These
would appear to work quite effectively in practice with many aspects being
resolved at the level of civil servants – this is especially the case with
continuation of existing policies (baselines). However, more significant issues
are brought to the ministerial level for resolution – this generally being the
case with any new policy initiatives.

Finland operates with a frame system of budgeting. This is based on
aggregate spending limits being established for each spending ministry as a
whole and then granting autonomy to each spending ministry in allocating
this aggregate amount among its various programs and agencies. In reality,
however, spending ministries complained that the Ministry of Finance had internal ceilings at the level of each appropriation, and that it was extremely difficult to reallocate money within ministries. It was reported that spending ministries had come with proposals to fund a new initiative by reducing expenditure on an existing policy with the Finance Ministry deciding to accept the reduction but not the increase.

Finance Ministry officials strongly disagreed with this characterisation, noting that this may have occurred in isolated cases during the budget crisis but that this was certainly not the way the system worked in practice. They did, however, scrutinise each appropriation but if the reductions were realistic the Ministry of Finance had no reservations whatsoever about it being redirected to a new initiative costing the same.

In March, the government spending limits discussion takes place. At this meeting, the Minister of Finance presents frames for each ministry where their maximum level of spending is proposed. The frames proposed by the Minister
of Finance are almost without exception lower than the requests made by the spending ministers. The frames are, however, approved by the Cabinet in a surprisingly brief meeting, lasting only a few hours. This is partly explained by the fact that the Minister of Finance will have conducted bilateral discussions with each minister prior to the meeting. But the main reason is that the difficult political decisions on funding new policy initiatives are not taken here, but deferred until the government budget session in August. Although not designed as such, the frames approved at the Spring meeting can in essence be seen as approval of funding levels for existing polices (i.e. updated baselines). There have been exceptions to this general characterisation with important decisions on new policies in certain areas being taken at the March meeting.

In the past few years, the frames approved at the Spring meeting have been presented in April to Parliament for information. In 2000, the frames were presented to Parliament for confirmation. This was designed to get parliamentary “buy-in” of the aggregate expenditure ceilings which would in turn assist the Finance Minister in further negotiations with spending ministers. There is, however, no legal requirement to do this. In fact, Parliament did not accept this new practice and discussions in Parliament focused on the need for additional expenditures on individual items. This only seems natural. As noted above, the government’s expenditure proposals are not final at this stage, i.e. financing for new policy initiatives has not been agreed, and it seems unrealistic to expect Parliament to have confirmed expenditure frames that did not include them. It seems clear that for this system to work effectively, budgetary decisions that are now made at the government budget session will have to be brought up to the Spring meeting. There would, however, appear to be very limited interest in bringing these decisions forward by five months. This is further discussed in the next section of this report.

In mid-May, spending ministries send revised budget drafts to the Ministry of Finance. They are to be within the limits set in the spending frames as approved by the Cabinet at their Spring meeting. In reality, they are not as ministries suggest new policy initiatives. The proposals presented here are, however, not simply a resubmission of the original operating and financial submissions presented at the beginning of the year. First, their requests have become more realistic as the results of bilateral discussions with the Minister of Finance – and wider political consultations – earlier in the year. Second, as a result of Finland’s Freedom of Information Act, the revised requests are made publicly available. It is believed that this has served to temper proposals from spending ministers. This is because they do not wish to see their final budgets being significantly less than what they requested, as this would reveal them to be either fiscally irresponsible or politically powerless. It has also served to reduce the number of politically motivated leaks in the budget formulation process. This exemplifies how budget transparency and fiscal responsibility can
work hand-in-hand, although it is too early to draw firm conclusions in this area since only two budgets have been formulated under these circumstances.

The major milestone in the budget process then comes in late August with the government budget session. This is where all final decisions are made on the budget proposal, including funding for new policy initiatives. It is a two-day meeting. The meeting starts with a presentation of all issues of disagreement between the Minister of Finance and spending ministers; this is largely limited to funding for new policy initiatives. The number of such issues tends to be around 60-70. The atmosphere at these meetings varies from one meeting to the next, but they are more contentious when an upward revision in economic assumptions has been made, therefore yielding more available resources. Following the presentation of the issues, a sub-group of senior ministers, led by the Minister of Finance and consisting of the leaders of all the parties constituting the coalition government, meets with each of the relevant ministers and goes over the issues at hand. This group tends to accept about one-tenth of the outstanding issues and the decisions of this group are decisive (the full Cabinet still has to accept them). If this group cannot reach a decision, it is taken to the full Cabinet. This is extremely rare and applies only to exceptionally sensitive political issues.

Following this meeting, the budget documentation is finalised. It consists of one volume numbering about 700 pages. A significant number of performance information is contained in the explanations for each ministry, agency and program. Spending ministries supply the Ministry of Finance with relevant information to be contained in the budget but the final editorial decisions are made by the Ministry of Finance. The budget is presented to Parliament in early September.

2.4. Conclusions

As the fiscal crisis of the mid-1990s clearly demonstrated, Finland’s budget formulation system is most resilient. There would, however, appear to be some room for improvement in the Finnish budget formulation process.

The use of a rolling multi-year expenditure framework would be of assistance in maintaining fiscal discipline and would be the basis for further development of the Coalition Agreements in this area. Good governance principles surrounding the formulation of the Coalition Agreements need to be reinforced.

Related to this is the need to create room for more flexible reallocation measures in the budget process. An enhanced role for the Coalition Agreements would appear to be a prerequisite for fostering reallocation between ministries; a more trusting atmosphere between the Finance Ministry and spending ministry would appear to be required for reallocation within ministries.
Box 4. The Ministry of Finance and spending ministries

The Ministry of Finance is recognised as the pre-eminent ministry within the Finnish Government. The ministry is composed of the Economics Department, the Budget Department, the Tax Department, the Financial Markets Department, the Personnel Department, the Public Management Department and several corporate services units. The ministry employs a staff of about 350 people. The Budget Department has a staff of 45. The Budget Department is organised around divisions that shadow each of the spending ministries. There are usually one to three officials per main title. The Budget Department seeks to have an in-depth knowledge of the policies of each spending ministry and to have an independent capacity to “second-guess” their proposals.

A characteristic of spending ministries in Finland is the very different cultures and processes adopted in each of them. Typically, the budget function resides with a special budget office within each spending ministry. They are responsible for compiling and synthesising the budget proposals for each of the programs and agencies of the ministry and for managing relations with the Ministry of Finance. The number of staff serving in budget units in spending ministries is generally around 10, but they are involved with wider financial management issues as well.

Timing issues are of significance. There would not appear to be a desire to bring decision-making up in the budget process. Nor is there any apparent reason to do so. This does, however, have implications for Parliament’s role in this process, especially in the Spring. There would also seem to be reason to reassess some of the timings in the budget formulation process. Specifically, there would appear to be room to merge and re-time the submission of operating and financial plans at the beginning of the year and the revised submissions in May.

The level of transparency in the budget formulation process is commendable with Finland being testament to the fact that a high-level of transparency is not only not obstructive of fiscal responsibility but can in fact contribute to it. This is, however, an early judgement.

There appear to be misunderstandings between agencies, spending ministries and the Finance Ministry on the role of performance information in the budget process. There would appear to be a need for significant clarification and a more uniformly applied system in this regard, as discussed in Section 4 of this paper.
3. Parliament’s role in the budget process

3.1. Introduction

Finland has a long history of majority, coalition governments. The current so-called “Rainbow” Coalition was returned to office in 1999 for a second four-year term and 65% of the seats in Parliament are held by members of the government coalition. Given the size of the coalition and the breadth of political views it encompasses, it is generally viewed as a loose agreement with a fair amount of dissent.

This section outlines the parliamentary budget process within the political and constitutional context of Finland. It reviews fundamental changes in the process over the past decade and their effects on parliamentary input into the state's budget. The OECD believes that effective parliamentary involvement in the budget process is a pre-condition for long-term good governance. While constitutional arrangements vary the capacity and competence of Parliaments from country to country, how Parliament fits into the approval and oversight of the nation's budget is an integral part of how legislatures check the Executive branch.

This section finds that overall the role of Parliament in Finland could be more effective, but parliamentarians generally realise this and are planning major changes in the near future. The parliamentary budget process in Finland seems more of a step in the consensus building process, than oversight and ownership of the actual budget document. Some important changes, notably annexing the National Audit Office to the Parliament, have occurred but it is too early to comment on the effectiveness.

3.2. Basic framework of parliamentary budget action

The Finnish Constitution gives Parliament authority to decide the state budget. The Constitution explicitly states that Parliament must “decide on the state budget for one budgetary year at a time”. Parliament must also approve the maximum amount of new debt to be issued or the total level of state debt. Parliament must also give consent to granting of state security and state guarantee. While there is no firm constitutional or other legislative timeline for consideration of the budget, according to the Constitution, governments must submit their budget “to the Parliament well in advance of the next budgetary year”. In practice, this means that the government submits the budget in September and Parliament concludes its work on the budget in December. There are no other formal budget and appropriations through the year except in the event of a supplementary bill. There are typically at least two supplementary bills considered during the year.
The government's budget is fully amendable and individual members of Parliament have the right to produce legislation and amendments. Parliament in fact passes many amendments during the session but most seem to be fairly small. Generally, parliamentary budget action results in increased expenditure over the levels set out by the government. While a vote against the government's budget is not a vote of confidence, widespread dissatisfaction over the budget could lead to a confidence motion.

Box 5. The Finnish Parliament

The Finnish Parliament, known as the Eduskunta, is a unicameral legislature. There are 200 seats divided by the “d’Hondt” system of proportional representation. Elections are direct as citizens vote for individuals, not parties. There are currently 12 political parties represented in Parliament with 85% of the seats split between four major parties. The current government coalition controls some 65% of Parliament. General elections occur every four years, however Parliament can be dissolved and special elections are held. The next round of elections will occur in 2003.

Parliament has 14 standing committees including the Finance Committee which is responsible for the budget, appropriation and tax bills. The committee is also responsible for oversight of the parliamentary auditors. The Finance Committee is currently chaired by Ms. Maria Kaisa Aula, a member of the opposition. For the past 20 years chairmanship of the committees in Parliament have been decided in an informal deal among the political parties prior to formation of the government. During that time, the understanding has been that the Finance Committee is chaired by the centre or conservative parties.

Many countries have moved to a two-stage budget process where total spending is decided first, early in the year, and specifics decided later. Finland has retained the one-stage process where the Parliament receives the government's budget proposal in the Fall and final passage on the amended budget occurs in December. The government tried unsuccessfully to institute a parliamentary vote on the totals after the government's decision on the totals in early Spring. However, the document was presented as more of a vote of confidence and Parliament rejected this as too constraining. The broad spending totals are now transmitted in a Prime Minister's communication but there is no formal discussion or action in committee. Any debate or discussion is done during general plenary session and typically is of a political nature not necessarily dedicated to discussion of overall spending.
As was noted in the previous section, the government presents a four-year medium-term expenditure framework for its budget. However, these have little meaning in the Finnish context. The Parliament does not debate future year spending plans during its review process. Moreover, the Finnish Parliament does not operate within a fiscal framework for its budget process. In other words, there are no requirements to remain within a set level or targeted spending. Finland is a signatory of the Maastricht Treaty, thus ultimately actions are constrained by Stability and Growth Pact limits on total debt and deficits in relation to GDP.

3.3. Finance Committee action

The budget has historically been transmitted to Parliament in early September. First came the budget proposal and then came the implementing legislation. From this year forward, the budget will come to Parliament in mid-September as one submission. The parliamentary budget process lasts about three months. The budget details and taxation legislation are referred to the Finance Committee for action, but the implementing legislation is referred to the respective sectoral committees. The budget is adopted in a single reading by Parliament and the vote is based on a report prepared by the parliamentary Finance Committee.

The Finance Committee has limited resources available. Presently there are only four counsellors that split the details of the budget as well as the tax program. There are also parliamentary auditors that conduct reviews and investigations on behalf of the entire Parliament. Much of the resources and expertise available to Parliament reside with the political parties. The parties often fund staff and freelance experts as well as research institutes. At the beginning of 2001, the National Audit Office was moved from the Ministry of Finance.
Finance to be an independent office administratively connected to the Parliament. This change will be discussed later in this section.

Despite the limited staff resources, the Finance Committee's actions are complete and thorough in preparing the report. The Finance Committee is divided into nine sections that roughly correspond to the ministries of government. Each section is composed of eight to nine members headed by a chairperson and it typically has at least one member from each party in the coalition as well as opposition members. The sections are responsible for conducting hearings and overseeing the details of the budget. There are also hearings in full committee on themes that are common to several sections and on themes such as economic prospects in general.

The hearings touch on a wide variety of actors and interest groups. These actors include ministers, senior public servants, representatives from trade unions and civil society, experts and local government officials. The hearing process takes well over two months and the committee in total conducts on the order of 500 hearings. Parliament has extensive rights to information. In theory, all government papers must be made available to Parliament. In general, there is an informal relationship between Parliament and the government. Ministers, civil servants and agency employees can appear for formal hearings or sit in on informal discussions.

After a general discussion, each section of the Committee headed by a sub-chair drafts a report on their part of the budget complete with opposition views. There is separate consideration of each section's report. The Finance Committee votes on opposition amendments, which are almost uniformly rejected except for a few token changes. The Finance Committee's report is then sent to a general session of the Parliament for consideration.

Again, individual parliamentarians have the full constitutional right to propose any amendments. There are no restrictions on the number, scope or cost of the amendment except that appropriation and other spending amendments must be budgetary motions discussed during general consideration on the budget. There are no procedures prohibiting amendments from changing the total amount of spending in either the committee setting or in plenary session. The only requirement for an amendment is that it is based on a budget motion, written down and filed with the central clerk's office.

3.3.1. Plenary action and amending the budget

A large governing coalition means that close to 65% of Parliament has power to question the government’s budget or legislation and be guaranteed a seat at the table in a discussion. This seems to be a double-edged sword. On one hand, the government virtually never has a problem with a new proposal
or legislation. The government does not need tight coalition discipline to pass their proposal. If there are members of Parliament or small factions of the coalition opposed to any proposal, or even section of legislation, their support is not required to make a majority in Parliament. Since opposition within the coalition shifts based on the issue, small parties have more to gain from remaining in the coalition and having a voice than leaving. On the other hand, since so many coalition partners with diverse members in Parliament have a say in developing policy, meeting the demands of a wide-ranging spectrum of interests has modestly undermined fiscal discipline. For example, during the year 2001 the government submitted a supplementary budget amendment in the Spring. The amendment sought to use an unexpected 1.2 billion in revenues to reduce debt. To get a Coalition Agreement, the government had to agree to a spending package to secure the agreement. Moreover, during the regular budget session, individual parliamentarians routinely submit and pass amendments to modestly increase spending.

The opposition does not set out a complete alternative budget but does include many substantive proposals. Opposition proposals and amendments are not necessarily rejected out of hand, but when they are adopted the changes are small or symbolic. A proposed amendment or adoption of an amendment either from the opposition or majority coalition does not constitute a confidence vote.

3.3.2. Changes in the parliamentary budget process

Parliamentary control used to be highly detailed. The level of detail was often down to, for example, the level of deciding upon individual university professorships. Recent changes in the system have reduced the level of detail. Over the past decade, as noted in Sections 3 and 4 of the report, the Finnish budget system structure has undergone profound changes. Notably the government exercises less input control and has moved towards a more performance and results-oriented budget. Like most countries within the OECD, there has been an extensive corporatisation and privatisation process of state industries or responsibilities. The relationship between independent municipalities and the state has generally moved from a cost basis to a lump sum or block grant transfer.

Altogether, the reforms have improved efficiency, budgetary savings and lowered long-term and contingent liabilities. The reforms have come uniformly at the expense of parliamentary control. On the one hand, it is appropriate that Parliament not be in a position to micro-manage the government. However, as strong input control was reduced, Parliament was not given, or perhaps did not seek, additional responsibilities or oversight abilities. This is gradually changing. The first and very important step is the recent change of the constitutional location of the National Audit Office.
Currently, there is also a parliamentary working group that seeks to strengthen oversight and make reporting more efficient for parliamentarians.

As was mentioned at the outset, Parliament does not vote on the total amount of spending. Similar to the government, little attention is paid to the four-year medium-term expenditure framework. This is only a minor or even moot point due to the emphasis in the Government Program (Coalition Agreement) on achieving a structural surplus and holding real expenditures at 1999 levels. Long-term problems of an ageing society in Finland are acute, but there seems to be little debate on future expenditure needs both medium- and long-term in Parliament. The lack of debate is partially the fault of government as the supporting budget documents do not address these issues. Again, this is a recognised problem and Parliament and government are considering new steps or processes. In fact, there is no evidence that the present budget process and Parliament’s role in the process has lead to adverse fiscal outcomes – principally larger deficits.

Parliament does not have a voice in the development of or take ownership of the performance goals. Part of this weakness stems from the information given by the government and the National Audit Office. The government typically sends highly technical information on performance agreements. Of the information that is generated, the quality of reporting varies from ministry to ministry and among agencies. The information presented by government generally does not focus on qualitative reviews and other data that would be useful to parliamentarians. Moreover, as is often the case in other countries, data on performance is not available on a timely basis.

Because of the weaknesses in reporting, parliamentarians and parliamentary staff do not show interest in using or reviewing the audits and performance information. The Chairwoman of the Finance Committee noted that “the Government Report on State Finances (Year N – 1) and the Report of Parliamentary State Auditors (Year N – 1) have seldom raised any noteworthy debates in the Parliament”. Part of the problem according to the Chairwoman, however, is procedural. “Parliamentary procedure of (requiring) a consultation document on the Parliamentary State Auditors report takes such a long time that they are not debated until the following year (N + 1) in the Autumn.”

There seems to be a general awareness within Parliament that their role in the budget process needs to be improved and Parliament, as an institution, has started making changes. While initially opposed by the government, the State Audit Office was moved out of the Ministry of Finance to an independent status within the legislative system. Parliament is taking a broader view of spending and moving away from line item control. There is currently a working group that has representatives from Parliament, the Ministry of
Box 7. **State Audit Office**

In a constitutional reform, the State Audit Office (SAO) was moved from the Ministry of Finance to be an independent office of the Parliament on 1 January 2001. The change was a parliamentary initiative. The move stemmed from a realisation that the Parliament needed better performance and financial information if they were to make an effective contribution to the results-oriented budget process created in the early 1990s. Parliament also used standards developed by the International Organisation of Supreme Audit Institutions (INTOSAI) as an argument to make the change.

The SAO is formally independent but the Auditor General is now appointed by Parliament. There were discussions on changing the role and other governance arrangements during the reform. Most of these changes were rejected. There are two groups charged with auditing in Finland: the State Audit Office and the Parliamentary State Auditors. After the reforms, the Parliamentary State Auditors and State Audit Offices will keep separate but complementary functions. While recognised as an issue, there will not be an immediate attempt to reorient or better align the work of the two offices.

The SAO will continue to provide audits to the Ministry of Finance and audited bodies, in addition to new streamlined reports to Parliament. The biggest difference is that the SAO will now be more independent – in the words of the Finance Committee chair more “courageous” – and will now be able to bring initiatives resulting from their audits to the Parliament. The Parliamentary State Auditors will continue to provide program evaluations in response exclusively to the needs of Parliament. The Parliamentary State Auditors act more like researchers for Parliament rather than financial auditors.

Finance and both audit offices that is considering other changes to strengthen the effectiveness of Parliament in its ex post budget oversight functions.

3.4. Conclusions

The past decade has seen fundamental changes in the Finnish budget system. Within the Parliament it is seen that changes have almost uniformly come at the expense of the Parliament without being replaced with new powers or responsibilities. Parliament continues to be focused on small changes to the budget when changes to the process call for wider overview and monitoring.
On one hand, the Parliament appears to have the constitutional and political potential to be a strong and influential part of the budget process and political discourse. The fact that moving the State Audit Office to Parliament was a parliamentary initiative shows it has the institutional influence to take charge and make fundamental changes. The Parliament, however, does not exercise much of this potential but with a few changes could be an effective player in the budget process.

On the other hand, Finland has strong reputation for governing by consensus. Parliament, with a large governing coalition, plays an important role in achieving this consensus. Extensive hearings reach out to a wide-range of actors, civil society and social partners. Ministers and civil servants are routinely questioned and government is obliged to defend their budget. The process seems well suited to disseminating information about the coalition’s budget.

Some of the main subjective observations of Parliament include:

- The Parliament is a weak actor in the budget system of Finland despite its potential and constitutional rights.
- The Parliament does not operate within a fiscal framework. There is no vote on the total amount of spending nor requirements to offset new spending, thus parliamentarians have no formal constraints on amending the budget and adding new spending. Much of the parliamentary involvement in the budget process seems limited to ensuring that local projects are funded rather than examining the large spending decisions.
- The opposition does not provide a complete alternative, instead focusing only on politically sensitive items.
- Multi-year spending agreements are completed in name only and future year spending totals are not seen as guides or binding in any way. (Although it should be stressed that the Government Program calls for structural surplus and tight fiscal discipline.)
- There is little discussion of performance goals in Parliament. While government budgets on the basis of results and performance agreements, Parliament has opted not to take a larger role in setting, debating and monitoring performance goals.

One of the conclusions of this report is that the performance and results budgeting system in Finland is theoretically sound but technically flawed. It is uneven in its range and effectiveness with some ministries doing well while others lag behind. One of the biggest problems is the lack of co-ordination across ministries. If Parliament took ownership of goals, problems of co-ordinating outcome and output goals as well as policy across ministries might be easier or more effective since ministers would be obliged to break down ministerial barriers in the face of parliamentary will.
It should be emphasised that the challenges facing the Finnish Parliament are no different from those facing other Parliaments. The very nature of a parliamentary system forces members to submit to the will of the coalition and members themselves must deal with short-term election horizons. Effective monitoring and review of the Executive is hampered by the type of information (too detailed and too technical) provided by government.

Finally, as noted above, members of Parliament realise they need to change their role in the budget process. Parliamentarians are searching for effective ways to be involved in the performance budget process. A first, and extremely important, step was to take the initiative to make the State Audit Office an independent office of the Parliament. This change alone will enable the audit office to do its job better and respond to the needs of Parliament. Over time, information flowing to the Parliament should be better suited and more timely to meet the needs of Parliament.

4. Managerial flexibility

In the 1980s, a number of measures were initiated to increase the degree of managerial flexibility in the Finnish public sector. These continued at a rapid pace during the budget crisis of the early 1990s as the government believed that increasing managerial flexibility would allow the government to reduce expenditures without a commensurate reduction in the level of services. In other words, managerial flexibility would foster efficiency gains. Finland’s embrace of managerial flexibility is all the more noteworthy due to its long tradition of detailed legalistic central controls.

This section reviews the status of managerial flexibility in Finland. First, the establishment of agencies is discussed. Second, the abolition of various centralised input controls is discussed – notably in the human resource management field. The section concludes with a review of Finland’s financial management system.

4.1. Ministries and agencies

As in the other Nordic countries, Finland has traditionally organised its government into relatively small policy-making ministries and a relatively large number of subsidiary agencies responsible for implementing policies. Today, there are 13 ministries and 103 agencies in Finland. About 92% of all government employees are employed in agencies compared with about 8% in core ministries. This organisation model functions well in Finland. Some fine-tuning is now taking place. The number of agencies is being decreased due to the amalgamation of some very small agencies in order to create more viable units. Conversely, they are being increased in number as regulatory and
commercial functions of agencies are being separated, with the latter function being placed with state-owned enterprises or privatised.

There is, however, some disquiet about the nature of the involvement of ministries in the affairs of agencies. That 8% of all staff are employed in the core ministries indicates *prima facie* a larger role for core ministries than in the other Nordic countries. In Sweden, for example, less than 1% of all staff are employed in the core ministries. The relationship between ministries and agencies in Finland has undergone major changes in recent years. In the past, ministries exercised strong controls over agencies in the form of detailed input-oriented instructions. These have now been largely abolished as described in the following subsection. Agencies voiced concern, however, that these input controls were being replaced by over-detailed output controls. It should be emphasised that this varied greatly from ministry to ministry. In fact, it was surprising to see how different ministries had reacted – with the range of detail of output specification varying greatly between ministries. This is further discussed in the next section.

Agencies have traditionally had boards of directors attached to them. The ministries appoint individuals to these boards, often following nominations from relevant interest groups. In general, the boards have proven ineffective and have not acted as boards of directors in the private sector sense. The real line of accountability is between the ministry and the head of the agency. In recognition of this, several ministries have decided to abolish the boards of directors altogether. This is not a government-wide policy but is rather decided by each ministry on a case-by-case basis. Certain ministries take the view that it is important to have a board of directors composed of relevant interest groups. Such boards can best be characterised as advisory boards.

Each agency is headed by a director-general. These positions are advertised as are all other positions. Directors-general are generally appointed for five-year terms by the President of the Republic, on recommendation of the government. Turnover of directors-general is relatively low, as they are most often re-appointed until the age of retirement. Political considerations also play a significant role in the appointment process. The political party affiliation of directors-general is almost without exception known and a balance in the representation of the different political parties is maintained. The degree to which such political considerations are taken into account has been declining steadily over the years, but is nonetheless a noteworthy feature of the Finnish system.

4.2. *Removing input controls*

As a general rule, agencies in Finland receive one appropriation for all their operating (running) costs. This reform was introduced between 1992
and 1995. The heads of each agency are then able to choose the most appropriate mix of inputs in order to fulfil the missions of their agencies. A number of measures have also been made to also abolish central management rules that inhibit managers from choosing the most appropriate mix of inputs. These are most notably in the field of human resource management and accommodation (real estate) and are discussed below.

4.2.1. Human resource management

Human resource management has become increasingly decentralised in Finland during the past two decades. In the first wave of reforms, recruitment, hiring and grading of staff was made the responsibility of each ministry and agency. These reforms are complete with no involvement from central agencies in individual cases. There are also no numerical restrictions on staff levels – the limits are inherent in the budget appropriations. The second wave of reform, which is currently underway, involves moving collective bargaining and pay issues to a more decentralised structure.

Nearly 80% of all government employees are formally hired as civil servants, with fixed-term contract employees accounting for the remainder. Only civil servants may be hired for positions involving the exercise of public power. Contract employees are hired according to general (private sector) labour law whereas civil servants are hired according to the State Civil Servants Act. Successive reforms have been made to this law so the differences between the two are relatively minor today.

The presumption is that civil servants will be hired until they retire. There are, however, no guarantees in this regard and formal lifetime tenure for civil servants is not a feature of the Finnish system. According to the State Civil Servants Act, they can be dismissed:

- if the whole agency or unit in which he is working is closed down; or
- when the measure is due to production-related or financial reasons and the person in question cannot be relocated or trained for new duties in the same agency.

These can be viewed as fairly liberal grounds for dismissing civil servants. For example, during the budget crisis of the early 1990s, the number of employees was reduced by over 8% over a three-year period. Severance pay is due to the employees affected, based on their years of service.

Collective bargaining for civil servants has historically been performed at the central level with the State Employer’s Office, a unit of the Ministry of Finance, being responsible for conducting negotiations with the three unions representing all government workers. There are currently moves to decentralise this function to some degree. The new arrangements involve a two-part cascading system of collective bargaining. First, the State Employer’s
Office will reach agreement with the unions calling for an overall increase in pay – for example, a 2% increase. Part of this increase will be applied equally to all workers – for example, a 1.5% increase. How the remaining increase will be allocated is then decided in local bargaining between each agency and the staff at each agency. The State Employer’s Office provides assistance to the management at each agency and the three unions will have local bargaining units at each agency. For example, the 0.5% remaining pay increase would not necessarily have to be allocated equally to all staff. In reality, the bargaining at agencies has generally resulted in the remaining increase being allocated equally to all employees. It is more common for working conditions to be negotiated in a different manner at each agency. The agreements reached at the local bargaining level have to be approved by the main unions at a central level and by the Ministry of Finance. All negotiated pay increases as the result of the collective agreements are fully funded in the budget.

A new salary system is being introduced in order to increase the pay of management and experts. This is based on agencies themselves judging the relative demands of jobs and then permitting agencies to increase the pay of highly demanding positions by up to 50%. It has been a long and contentious process to introduce this system which is currently being applied in 25 agencies, representing 14% of the workforce. By the end of 2002, all agencies are scheduled to be using this system. The funding for the salary increases must be mainly found from reallocations within the agency’s operating expenses appropriation, i.e. it will not be totally funded in the state budget.

Performance pay is not yet very widely used in the central government in Finland. Currently it is in use in 23 agencies. The result-based reward can reach up to 1-6% of the employees’ base pay. The criteria for the award of performance pay are decided by each agency.

A great amount has been achieved in modernising the personnel management system in Finland. There are, however, tensions in the current system between a tendency to centralise and the desire to decentralise. The decision to fully fund pay awards from the centre and for all local collective agreements to be confirmed by the Ministry of Finance serves to diminish the responsibility of the directors-general of the agencies. Consideration should be given to making them more fully responsible for this process.

4.2.2. Accommodation (Real estate)

In 1995, most government-owned real estate was transferred to a separate agency, the State Real Property Authority, a unit of the Ministry of Finance. In 1998, it was turned into a state-owned enterprise, still a unit of the Ministry of Finance. The State Real Property Authority provides accommodation to government ministries and agencies and charges rent for the properties it
provides. The rent is based on market rents and includes a charge to cover the cost of capital tied up in the properties. Appropriations for rents were moved to the individual ministries and agencies themselves that, in turn, pay the State Real Property Authority for the accommodation it provides. Agencies were also given the freedom to choose their own accommodation from private sector providers rather than the State Real Property Authority.

This does not appear to have been a controversial reform. It seems to be viewed as a purely technical accounting exercise rather than a tool to foster better management of accommodation in ministries and agencies. Although agencies are free to choose their own accommodation, they do in practice tend to stay with their original accommodation. Annual adjustments to the rent charged by the State Real Property Authority were fully funded from the centre in the beginning, but this has been discontinued.

4.3. Financial management

Finland employs an effective and efficient financial management system. This section reviews Finland’s cash management and reporting system, incentive regimes for improved financial management and the use of accruals in the core government sector.

4.3.1. Cash management and reporting

Finland employs a centralised cash management system operated by Ministry of Finance and the State Treasury, an agency of the Ministry of Finance. The State Treasury operates this system through accounts for each ministry and agency in a commercial bank; the balances in the commercial bank are swept overnight by the State Treasury for investment purposes. The bank is selected by competitive bid for five year’s duration.

A daily and monthly apportionment plan is used for cash management purposes whereby all revenue and expenditure is assigned to the day and the month when the moneys are forecast to be received or paid. The 60 largest agencies, representing over 95% of total cash outflow, prepare detailed apportionment plans whereas the Ministry of Finance prepares the apportionment plans for the others based on historical patterns. This apportionment plan is not made public.

The State Treasury does issue a report every month comparing monthly revenues and expenditures with the same time period last year. This report is at the aggregate whole-of-government level and does not show information for individual ministries and agencies. This report is available three to four weeks following the close of each month. Consideration should be given to publishing a comparison with the detailed apportionment plan, showing information for individual ministries and agencies, and explaining any deviations.
The State Treasury also issues a more substantial half-yearly report, which includes detailed commentaries on the implementation of the budget and revised projections for the final budgetary outcome at year’s end. This report is usually available one to two months following the halfway mark.

An annual financial report is presented to Parliament following the close of each year. The report is released by the State Treasury in an unaudited form.
three months following the close of the year. An audited report is available six months following the close of the year. Efforts should be made to make this report more timely with a view of having an audited report available three months following the close of the year.

4.3.2. Incentive systems

With minor exceptions, all unused appropriations for operating (running) costs are permitted to be carried-forward from one year to another. This reform was instituted between 1992 and 1995. There don’t seem to be any problems with the operations of this system with no complaints heard about the Ministry of Finance “confiscating” unused balances, and no complaints from the Ministry of Finance about the build-up of excessive balances in ministries and agencies.

Finland also introduced the system of net budgeting in 1992. This applies to agencies that are financed mainly through user-charging. As long as user-charges are increasing, the agencies are allowed to increase their operating expenditures commensurately. Again, this appears to working very effectively.

If an agency uses cash less rapidly than envisaged in the apportionment plan, it does not receive interest on that amount. Similarly, if an agency uses cash more rapidly than envisaged, it is not required to pay interest on that amount. Finland carried out studies on whether to introduce such a system 10 years ago, but it determined that around 80% of all expenditures were fixed by legislation or contract and that it was not practicable to introduce such a system. However, the value of such incentives in sending signals to directors-general of agencies should not be underestimated.

There is no direct form of capital charging employed in Finland. As noted above, the State Real Property Authority does however include a capital charge for the accommodations that it rents to government ministries and agencies. This system is believed to catch most of the benefits of a direct capital charging regime in an easier to understand and lower cost manner.

There is no system permitting ministries and agencies to borrow against future appropriations for certain capital acquisitions.

4.3.3. Accruals

Finland employs accruals to differing degrees in its budgeting and financial reporting functions. The annual financial report is on full accrual basis whereas the budget operates on a mixture of cash and accrual basis. All operating expenditure is budgeted on an accrual basis whereas the remainder is on a cash basis. It is estimated that about two-thirds of all budget expenditure is on a cash basis and one-third on an accrual basis. It should be
noted that the annual financial report is also presented on the same basis as that applied to the budget to allow easy comparison.

The Finnish authorities take a positive view of accruals. A working group established by the Ministry of Finance to evaluate if accruals should be used on a wider scale has recently proposed that the budget should be moved to full accrual basis as well. The recommendations of the working group are now being evaluated by the Ministry of Finance in consultation with other ministries.

4.4. Conclusion

A “cultural revolution” has been underway in Finnish government management in recent years. Finland has broken away from its long tradition of detailed legalistic central controls and has been able to embrace managerial flexibility. It is widely viewed that this flexibility contributed to Finland being able to weather the fiscal crisis with deep cuts in appropriations while not allowing public services to suffer commensurately.

Tensions, of course, remain between centralisation and decentralisation. Some agencies complain that their ministries had simply replaced input controls with output controls. This can, however, be seen more as a snapshot on a reform path as ministries and agencies learn to operate in this new environment rather than as any general comment about the system as a whole, and it certainly does not apply to all ministries.

The removal of central controls in the human resource field has moved along quite systematically, and it is suggested that in Finland’s environment, there is scope for further decentralisation. Finland’s financial management system is impressive, although improvements to the timeliness and comprehensiveness of financial reporting could be made.

5. Accountability for results

5.1. Introduction

Results-focused reforms have been underway in Finland for over a decade. Pilot projects were initiated in 1988 for a number of agencies and in 1995 the results-focused reforms were expanded to the whole public sector. The goals of the reforms are to increase the effectiveness and efficiency of government and to better inform decisions on resource allocation. The reforms were introduced in the context of profound economic pressure on government finances and they were accompanied by substantial reductions in expenditure. The objective of the reforms was not, however, to harvest savings per se.
The results-oriented reforms in Finland encompass the following elements:

- the budget documentation has been reformed to include results targets and information;
- agencies are to enter into contracts with their parent ministries;
- accrual accounting has been introduced;
- the audit function has been expanded to include a substantial role in assessing not only actual performance but also the running and implementation of the performance management and budgeting regime;
- managerial flexibility has been expanded significantly as outlined in the previous section.

The reforms were designed over time and have been implemented cumulatively, i.e. there was no Big Bang approach. Only a few of the reforms are established in law and it is explicitly noted that the responsibilities for implementing the reforms are with the line ministries and agencies. In practice, it is left up to the ministries and agencies how to form and implement a result focus within a broad framework developed by the Ministry of Finance.

5.2. Specifying results

Results are specified in a number of official documents, including the Government Program (Coalition Agreement), the budget and contracts between ministries and agencies.

5.2.1. Government Program (Coalition Agreement)

According to the Constitution, a new government is required to issue a Government Program (Coalition Agreement) outlining its policy objectives for its term of office and present it to Parliament. Targets in the Government Program are formulated by members of the incoming government as part of coalition negotiations and are political in nature. Examples of targets in the latest Government Program include that “central government finances will show a structural surplus” and that “the government will observe the EU’s Code of Conduct on Arms Exports and actively strive to improve them”. Goals set in the Government Program are mostly qualitative and generally at the level of outcomes, although some output-type objectives are included.

5.2.2. The budget

The budget is organised by ministries. Besides financial information, the explanatory notes to the budget provide a general description of the tasks and related results information (including targets) for each ministry and subsidiary agency.
Results information and targets are only loosely tied to financial information. Output and outcome information is costed only in some cases and there are only a few areas where appropriations are dependent on results. Performance information is not part of the vote in Parliament, but is presented in the budget with the purpose of informing budget decisions. Accordingly, Parliament does not change targets displayed in the budget document, nor question results information in the budget. Generally, officials and parliamentarians alike report that Parliament does not use the results information in the budget during their deliberations. With very few exceptions, results information in the budget does not attract media or other public attention.

The Ministry of Finance guidelines for what to include in the explanatory notes in the budget include targets for effectiveness, service, productivity, economy and development projects. In addition, ministries shall include descriptions of how costs are covered in cases where services are financed through fees. The instructions are binding but in practise the Ministry of Finance has on some issues allowed de facto exceptions to requirements set in the instructions. In practice, the results information and targets are formulated at the output level.

The information and targets displayed in the budget are formulated by line ministries and agencies in the context of preparing their operating and financial plans. As described in Section 1, these form the basis for their budget submissions to the Ministry of Finance.

5.2.3. Contracts

Ministries enter into performance agreements – or performance contracts – with their agencies. These contracts were introduced as a replacement for the detailed input controls in the budget and are intended to specify in detail the targets presented in the budget. In principle, there should thus be a clear link between the targets in the budget and the targets in the contracts. The contracts are to establish accountability between the agency and the ministry.

There is no general concept for how to implement the contracts. It is up to ministries and agencies how to implement this aspect of the performance approach and practice accordingly varies. Some ministries issue the equivalent of letters of instructions whereas others engage in more elaborate contract – like negotiations between core ministries and agencies. The contracts are not legally binding and, with some exceptions, ministers are usually involved in the negotiation and signing of contracts.

This part of the framework would appear to be very unevenly implemented from one ministry to another and within the same ministry.
Generally, agencies that are well managed use the contracts for strategic planning and internal management, whereas others invest few resources in this exercise.

Even though there is only little guidance regarding how to make the contracts and how to use them, the State Audit Office is mandated to evaluate not only the performance of agencies but also how the performance management and budgeting system works. The criteria which the State Audit Office is mandated to audit the performance management and budgeting systems are not explicitly stated.

It can be noted that the Ministry of Finance sees itself as responsible only for the common structure of the performance management and contract system, but other ministries do not see themselves as responsible for the quality and extent of implementation of the performance contract framework.

5.3. Reporting results

Ministries and agencies are legally required to report on the achievement of results-targets together with their financial results. The State Audit Office is mandated to audit the performance information as well as the way the performance management and budgeting systems are implemented. However, failure to achieve the desired results-targets does not give rise to legal liability and generally no sanctions or rewards are connected to performance – neither “organisational sanctions” (for example, changes in the level of funding for agencies) nor “individual sanctions” for staff and management.

Reporting on performance takes the following main forms:

- The government is required by the Constitution to deliver a report to the Parliament on the activities of the government and of the actions it has taken as a response to the decisions of the Parliament. This Constitutional Report is, in current practise, prepared by summarising the preliminary drafts of the performance reports prepared by each ministry and agency. These are later included in the annual reports of each ministry and agency (see below).

- In the Spring, each agency prepares an Annual Report (financial and performance) on its activities. The performance section shall contain brief description of the main operations of the agency and of the changes in them, report on the result of the operations with indicators and comparisons to the results targets established. Based on the reports from agencies, every ministry prepares a report covering the policy areas and institutions for which the ministry is responsible and sends it to the Parliament by mid-May.
Whole-of-government performance reporting is contained in a “Report on State Finances and Adherence to State Budget”. This report is a constitutional requirement and contains the main performance information and analyses of the effectiveness of policies and economy and productivity of the operations together with general information of the implementation of the budget.

Quantitative targets in the budget are accompanied with comparative information for previous year’s results where available.

Finally, there are specific policy area reports from the government to the Parliament, such as a regular report on social affairs and health care.

The preparation of these reports is required by law, whereas the way targets are set is largely left to the discretion of ministries and agencies. Ministries are held accountable for performance without specification of how performance should be achieved. In one way, this can be seen as the ultimate version of a result-focused management and budgeting system: operational units are not directed as how to manage themselves at all, they are only held to account for their results, however defined.

In principle there should be a clear link between the reports for agencies and for ministries. However, this appears to be rarely the case. Also, it is suggested that there is still fairly large room for improvement in the reliability, relevance and timeliness of the performance information. As previously noted, it is generally agreed that the degree and quality of implementation of results reporting varies vastly across the public sector.

5.4. Evaluation

There is a general aim and recommendation to have agencies evaluated on approximately four to six year intervals. In practice, evaluations are conducted in various ways from one ministry to another. The universities and state research institutions are evaluated regularly by international evaluators contracted for that purpose. In other sectors, the evaluations are more sporadic. The Finnish Institute for Public Management, or some other consultancy service is also quite often, on the basis of tender procedure, contracted to undertake an evaluation of an agency.

In addition to agency evaluations, there are policy evaluations, which are in certain areas a statutory requirement. For example, the 2001 State Aid Act stipulates that all agencies granting state aid and subsidies shall follow up and evaluate the effectiveness and results of the relevant state aid schemes and the impacts of those schemes on individuals, market conditions, the environment and stakeholders.
5.5. Conclusion

One of the intentions of the Finnish reforms was to better inform budget preparation and budget decision-making. Although the information is presented in the same documents, no attempt at actually linking appropriations and targets have been made. Equally, results information and financial accounts are not integrated – although both types of information are presented in the same documents. The latter is all the more surprising as Finland is operating a full accrual accounting system, which often is thought of as a means to better align expenditure with results. Interviews with officials in different parts of the Finnish public sector revealed that, at present,
performance information is not used actively when determining the level and distribution of appropriations. This suggests that more integration is necessary.

The Parliament and, in particular the Finance Committee, has pressed for the reform of government reporting to Parliament and there is currently a working group established by the Parliament preparing this reform. The general orientation of this reform is to integrate the annual state financial accounts and the annual report on the state finances and adherence to the state budget into a fully integrated set of documents reporting both the financial and operational results.

Leaving responsibilities for reform implementation at the level of line ministries and agencies has its strengths. In principle, the advantages include ownership, commitment and adaptation to the context in which the management and budgeting systems are to operate. The result in Finland, however, is first and foremost a very uneven implementation across different ministries and agencies.

In response to these concerns, the Ministry of Finance has established two working groups on this issue. The general orientation of this reform is to sharpen the legal rules concerning the reporting of performance information with the aim to provide a more uniform reporting framework.

The successful outcome of the recommendations of the working groups for solving these shortcomings is by no means assured. The identification of these problems is not new in Finland and it is not the first time that an attempt has been made to tackle them. However, the new interest on the side of Parliament and government on the accountability information and procedures could also indicate greater willingness to take political ownership of the performance target-setting and, thereby, provide incentives to really effective improvements. These problems are by no means limited to Finland; they are shared by most member countries implementing results-oriented reforms.

6. Conclusions

As noted in the introduction, the three basic objectives of a budgeting system are as follows:

- to instil and maintain aggregate fiscal discipline (i.e. to ensure the government does not, overall, spend more than is necessary to achieve its collective policy objectives);
- to allocate (and reallocate) resources in accordance with changing government priorities (i.e. to spend on what is deemed politically most important – allocative efficiency);
- to promote efficiency in the use of budgetary resources to delivery programs and services (i.e. to encourage operational efficiency).
It is also important that these basic objectives of budgeting be arrived at in a transparent and accountable process. The role of Parliament is of great importance in this respect.

The resilience of the Finnish budgeting system in response to the fiscal crisis of the 1990s demonstrated that the system works very well in order to instil and maintain aggregate fiscal discipline. That, however, occurred in a crisis environment. The level of expenditure growth is now higher than the government aimed for, a target which itself was considered as not very ambitious by outside commentators. The use of a meaningful rolling multi-year expenditure framework would be of assistance in maintaining fiscal discipline.

Such a multi-year expenditure framework would also be the basis for further development of budgetary aspects of the Coalition Agreements in this area. It was reported by senior officials that meaningful reallocation between ministries was impossible except during the short window of opportunity that was created when new governments are being formulated. Good governance principles surrounding the formulation of the Coalition Agreements need to be reinforced.

The level of transparency in the budget formulation process is commendable with Finland being testament to the fact that a high level of transparency is not only not obstructive of fiscal responsibility but can in fact contribute to it. This is, however, an early judgement.

The Parliament appears to be a weak actor in the budget system of Finland despite its potential and constitutional rights. Parliament continues to be focused on small changes to the budget when changes to the process call for wider overview and monitoring. Parliament does not decide on the aggregate level of government expenditure prior to deciding on allocation. This hampers reallocation and leads to creeping increases in aggregate expenditures. Parliament does recognise that it needs to heighten its stature in the budget process and is considering reforms in that area. Its initiative to move the State Audit Office from the Executive to the legislature may be a harbinger of things to come.

A “cultural revolution” has been underway in Finnish government management in recent years. Finland has broken away from its long tradition of detailed legalistic central controls and has been able to embrace managerial flexibility. This has most certainly improved the operational efficiency of the government. It is widely viewed that this flexibility contributed to Finland being able to weather the fiscal crisis with deep cuts in appropriations while not allowing public services to suffer commensurately.

Tensions, of course, remain between centralisation and decentralisation. Some agencies complain that their ministries had simply replaced input
controls with output controls. This can, however, be seen more as a snapshot on a reform path as ministries and agencies learn to operate in this new environment rather than as any general comment about the system as a whole, and it certainly does not apply to all ministries. In fact, the uneven implementation of the results framework is an issue that Finland is grappling with.

There is also a strong need to integrate better financial and performance information. This would fulfil one of the original intentions of the Finnish reforms to better inform budget preparation and budget decision-making. This should also serve to foster reallocation.

**Notes**


3. For further details on the Finnish economy and the impact of the ageing of the population, see *OECD Economic Surveys of Finland*, especially the 2000 survey.


7. The Constitution was recently revised and put into force in the year 2000. Many of the fundamental provisions regarding the rights and responsibilities of Parliament in the budget process, however, were unchanged.

8. Thirteen out of 27 OECD member countries responding to the annual OECD budget survey vote first on total spending before deciding detailed spending.

9. Finland has an unusually large state-owned enterprises sector, both in absolute value terms and in the number of different sectors where it is active. As these enterprises generally do not perform core government functions, they are outside of the scope of this report.
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