



OECD Journal on Budgeting

Special features

- Budgeting in Sweden
- Enhancing Finance Functions of Line Ministries
- Spending Reviews in Ireland
- Budget and Financial Management Practices

OECD Journal

OECD Journal on Budgeting

Volume 2016/2

The OECD Journal collection comprises five periodicals: *OECD Journal: Economic Studies*, *OECD Journal: Financial Market Trends*, *OECD Journal: Competition Law and Policy*, *OECD Journal on Budgeting*, *OECD Journal: Journal of Business Cycle Measurement and Analysis*. Each periodical within *OECD Journal* retains its own ISSN, volume and issue numbering. The volume numbering of each journal corresponds to the calendar year, e.g. Volume 2016. Volume 2016 of *OECD Journal on Budgeting* contains three regular issues.

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Series: OECD Journal on Budgeting, Volume 2016 Issue 2
ISSN 1608-7143 (print)
ISSN 1681-2336 (online)
<http://dx.doi.org/10.1787/budget-v16-2-en>

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Corrigenda to OECD publications may be found on line at: www.oecd.org/publishing/corrigenda.

© OECD 2017

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.

Foreword

The OECD Journal on Budgeting is a unique resource for policy makers, officials and researchers in public sector budgeting. Drawing on the best of the recent work of the OECD Working Party of Senior Budget Officials (SBO), as well as special contributions from finance ministries of member countries and from other practitioners, the Journal provides insights on leading-edge institutional arrangements, systems and instruments for the effective and efficient allocation and management of resources in the public sector.

We welcome feedback from our readers. Your views on how to improve the Journal can be sent to:

The Editors, The OECD Journal on Budgeting, OECD, 2, rue André-Pascal, F-75775 Paris Cedex 16, France. Fax: (33 1) 44 30 63 34; e-mail: sbo.news@oecd.org.

The Editors

Public Governance and Territorial Development Directorate, OECD

Rolf Alter

Director

Jón R. Blöndal

Head of Budgeting and Public Expenditures Division

OECD Journal on Budgeting

Jón R. Blöndal

Editor-in-Chief

OECD Advisory Panel on Budgeting and Public Expenditures

The OECD established an Advisory Panel on Budgeting and Public Expenditures in 2012. Its role is to offer insights on the directions of the OECD work in this crucial area. The Panel is composed of recent former chairs of the Working Party of Senior Budget Officials (SBO) and distinguished academics and experts associated with the SBO.

The members of the Panel:

Mr Julian KELLY

*Director-General of Public Spending and Finance, HM Treasury, United Kingdom
SBO Chair (2014-)*

Mr Gerhard STEGER

*Director-General, Budget Directorate, Federal Ministry of Finance, Austria
Former SBO Chair (2009-14)*

Mr Ian WATT

*Secretary, Department of the Prime Minister and Cabinet, Australia
Former Secretary, Department of Finance and Deregulation, Australia
Former SBO Chair (2006-09)*

Mr Richard J. EMERY

*Former Assistant Director, White House Office of Management and Budget, United States
Former SBO Chair (2003-05)*

Mr Geert VAN MAANEN

*Secretary-General, Ministry of Health, Welfare and Sport, Netherlands
Former Secretary-General, Ministry of Finance, Netherlands
Former SBO Chair (2000-02)*

Mr Barry ANDERSON

*Deputy Director, National Governors Association, United States
Former Assistant Director, White House Office of Management and Budget, United States
Former Acting Director and Deputy Director, Congressional Budget Office, United States
Former SBO Chair (1995-97)*

Mr Matt ANDREWS

Associate Professor, John F. Kennedy School of Government, Harvard University, United States

Mr Andreas BERGMANN

*Professor of Public Finance and Director – Public Sector, School of Management and Law,
Zurich University of Applied Sciences, Switzerland
Chair, International Public Sector Accounting Standards Board (IPSASB)*

Mr John BURNS

*Chair Professor of Politics and Public Administration and Dean of Faculty of Social Sciences,
The University of Hong Kong*

Mr John KIM

Senior Fellow, Korea Institute of Public Finance

Mr LU Mai

Secretary-General, China Development Research Foundation

Mr Paul POSNER

*Professor and Director of the Public Administration Program, George Mason University,
United States*

Mr Ricardo REIS

Assistant Professor of Accounting, Católica-Lisbon School of Business and Economics, Portugal

Mr Marc ROBINSON

Partner, PFM Results Consulting, Switzerland

Mr Allen SCHICK

*Distinguished University Professor, School of Public Policy, University of Maryland,
United States*

Mr Hideaki TANAKA

Professor, Graduate School of Governance Studies, Meiji University, Japan

Mr Joachim WEHNER

*Senior Lecturer in Public Policy, London School of Economics and Political Science (LSE),
United Kingdom*

Ms Christine WONG

*Chair Professor of Chinese Studies, Director of Center for Contemporary Studies,
Asia Institute, the University of Melbourne*

Table of contents

Budgeting in Sweden	9
<i>by Ronnie Downes, Delphine Moretti and Trevor Shaw</i>	
Enhancing the finance function in line ministries	75
<i>by Dirk Kraan</i>	
Spending reviews in Ireland – Learning from experience	93
<i>by Fiachra Kennedy and John Howlin</i>	
Determinants of sound budgeting and financial management practices at the decentralised level of public administration	109
<i>by Ben Smith Owusu Bempah</i>	

Follow OECD Publications on:



http://twitter.com/OECD_Pubs



<http://www.facebook.com/OECDPublications>



<http://www.linkedin.com/groups/OECD-Publications-4645871>



<http://www.youtube.com/oecdlibrary>



<http://www.oecd.org/oecdirect/>

Budgeting in Sweden

by

Ronnie Downes, Delphine Moretti and Trevor Shaw*

Sweden's budget reforms of the 1990s, which were intended to introduce greater clarity, transparency and rigour to fiscal policy-making, have proven influential throughout Europe and across the OECD. This report finds that the budget framework has demonstrated resilience and that it continues to command confidence among the broad range of budgetary stakeholders. However, a number of tensions are apparent as the framework responds to the challenges and priorities of post-crisis budgeting, and each of its key dimensions has been undergoing review and adaptation. Future reforms should focus on addressing a certain fragmentation apparent in some areas (such as performance information, evaluation, public investment strategy and fiscal risk). Sweden's advanced and pioneering practices, in areas such as cross-government collaboration and gender budgeting, may also benefit from more open, participative and citizen-facing initiatives in policy design and performance accountability.

JEL classification: H500, H610, H830

Keywords: Sweden, budget process, gender budgeting, performance budgeting, accruals

* Mr. Ronnie Downes is the Deputy Head of the Budgeting and Public Expenditures Division at the OECD and is the lead author of this review; Delphine Moretti is a policy analyst at the Budgeting and Public Expenditures Division at the OECD; Trevor Shaw served as a policy analyst at the Budgeting and Public Expenditures Division at the OECD during the preparation of this report and is currently at the Office of the Parliamentary Budget Officer of Canada.

Executive summary

In the wake of the financial crisis of the 1990s, Sweden introduced a series of far-reaching reforms to its budgetary and broader fiscal framework. The thrust of these reforms, many of which were outlined in the previous Budget Review of Sweden (OECD, 2001), may be summarised briefly as follows

- the re-structuring of the budget process into two distinct phases, with a **Spring Fiscal Policy Bill** in April setting down broad aggregates for fiscal policy development, followed by a government **Budget Bill** in the autumn specifying allocations for the budget year ahead;
- an **over-arching fiscal rule** in the form of a requirement upon the government to specify and meet a surplus target (currently, and for many years, set at 1% of GDP on average over the cycle);
- a clear and fixed medium-term framework through **three-year expenditure ceilings**, which are invariable as a rule, with the “incoming” year of the three-year framework being specified during the annual budget process;
- a clear role for **independent fiscal institutions and agencies** in providing an objective input to, and a qualitative perspective on, fiscal policy; and
- a performance orientation, with overall government expenditure being classified into 27 distinct **“Expenditure Areas”** which form a structural basis for setting and reporting on results achieved for public moneys.

Taken as a whole, these reforms have been intended to introduce a transparency, clarity and rigour to fiscal policy-making, analogous in some respects to the regime introduced for monetary policy-making in the 1990s, and with a similar objective of promoting confidence in the long-term sustainability of budgetary policy. The experience of the 15 years since the last Budget Review shows the basic resilience of this framework, which remains largely in place and which commands the confidence of the broad range of budgetary stakeholders across the political spectrum. Indeed, aspects of the Swedish framework have over recent years been influential in the EU-wide economic governance reforms, notably the “semesterisation” of fiscal and budgetary periods within the year and the adoption of medium-term fiscal rules. On the other hand, as this Budget Review outlines, a number of tensions are inherent in the Swedish framework as it responds to the challenges and priorities of post-crisis budgeting. Notwithstanding the overall support for how Sweden’s budget system has operated, it is notable that all of the five key dimensions set out above have been undergoing review and adaptation. In addition, some other themes of modern budgetary reform – notably gender budgeting – have more recently become priority areas of budgeting in Sweden.

The “whole of year” fiscal and budgetary process has been streamlined since the earlier OECD review, with the Spring Fiscal Policy Bill now focusing more clearly upon medium-term fiscal plans, and omitting the detail on expenditure that had previously been provided. Such detail is now reserved for the Budget Bill, which affords the parliament the opportunity to

engage in-depth on budgetary allocations. In principle, the parliament has power to amend the budget proposal, but the overall budget must be approved *en bloc* rather than by sections or areas. The unusual experience of 2014, when the opposition's budget proposal was unexpectedly adopted *pro tem* rather than that of the government, without triggering an immediate government collapse, indicates a certain resilience and flexibility in the underlying legal framework.

The 1% surplus rule has served Sweden well as a visible “anchor” for fiscal policy, institutionalising the societal commitment to fiscal prudence and sustainability following the crisis of the 1990s. However, the level of commitment to the 1% surplus figure now appears to be waning, in the face of (a) pressing budgetary demands for more investment, and for fiscal room to respond to the pressures from the refugee crisis, and (b) EU-wide harmonisation towards a budgetary-balance (rather than surplus) norm. In considering whether to move from its well-established fiscal rule, Sweden will need to consider whether it can successfully “lock in” a renewed commitment to fiscal discipline at an adjusted level, versus the risk of weakening the concept and force of a Swedish fiscal rule.

Sweden's medium-term expenditure framework is distinguished by its fixed character, and also includes inbuilt flexibility via a “budgetary margin”. However, the limits of flexibility within this framework are now being severely tested as a result of the extraordinary budgetary demands of the refugee crisis.

With regard to formulation of specific policy measures, the annual budget process functions as one of the key focal points for decision. The Swedish policy-making process is highly collaborative, with the administrative practice of *gemensam beredning* (“joint preparation”) facilitating a cross-governmental understanding of and input to cross-cutting policy measures. This practice also influences policy measures which are discussed in the budgetary context – especially the period from May to July/August when budget priorities are negotiated and decided – although the Ministry of Finance maintains a strong reserve function of ensuring fiscal discipline in prioritising among resource demands. The government-mandated principle of ensuring that new spending initiatives are matched with offsetting savings has been an effective aid in maintaining overall discipline in 2014 and 2015, although it remains to be seen whether this principle will retain its force in the face of current budgetary challenges.

Sweden benefits from a strong network of independent institutional supports for the budget process. The Swedish Fiscal Policy Council (SFPC) was established in 2007 to provide an independent critical perspective on fiscal policy, and to assess compliance with the fiscal rules. It has established a sound reputation as an authoritative commentator on fiscal policy issues and serves to underpin trust in the fiscal policy framework. Recent SFPC assessments of compliance with the surplus target have been disputed by the Government on account of technical measurement issues, which can result in an unnecessarily opaque and distracted fiscal policy discourse. The SFPC should be granted stronger access to information to reconcile such matters. The Council's annual reports tend to have a longer-term qualitative impact, and its specific findings are not necessarily designed to be directly relevant for the upcoming budget. While budgetary and economic forecasts are the responsibility of the Ministry of Finance, a range of other agencies and institutions contribute in various ways to the budget process. Notably, the National Institute for Economic Research (NIER) prepares its own set of economic forecasts and modelling tools, and has more recently expanded its economic commentary role.

The quality and transparency of financial reporting in Sweden are very high, with an extensive range of reports throughout the accountability cycle at both governmental and agency levels. Agencies have uniformly adopted accrual accounting, and the *Annual Report* provides comprehensive information on the financial position of the central government. However, compared to other advanced countries, the financial statements have a somewhat limited coverage as they do not consolidate pension funds, local government and State-owned Enterprises (SOEs). Lastly, the annual budget includes limited accrual elements (for pragmatic reasons), so the link between fiscal analysis, budgeting, and accrual accounting remains indirect and limited. The time lag of three and a half months before the *Annual Report's* publication, its limited impact on cash-based budgetary decision-making, and the absence of accrual-based fiscal targets may explain why the government, parliament, and the public at large have, so far, limited interest in and make limited use of the *Annual Report*.

The set of mandatory rules for issuing guarantees, the Government investment policy, the automatic balancing mechanism of the pension system, and the fiscal rules for municipalities and councils are sound safeguards against fiscal risks, which have been further developed in Sweden in the wake of the financial crisis. Sweden takes a systematic approach to managing and reporting on the broad range of fiscal risks, with specific requirements for reporting on State guarantees and SOEs, and a series of reports – from different institutions – on long-term sustainability. However, there is so far no aggregated view on these risks, and limited analysis of the financial situation of the sub-national government, despite the relatively large size of its SOEs.

Performance budgeting in Sweden is currently in a state of flux and internal review. The 2014 “PISA shock”, which showed unexpected sharp falls in Sweden’s educational performance relative to international peers, seems to have spurred Sweden’s political and administrative establishment to consider how to upgrade the internal evaluative and performance frameworks. The 27 Expenditure Areas serve, in principle, as a basis for setting high-level goals and indicators. In practice, the performance framework is not very systematic: specific goals may be laid down in particular policy areas, with or without reference to the Expenditure Area goals, while the relationship between agencies and line ministries generally involves clear reporting on specific indicators. Key indicators are aligned closely with the Expenditure Areas, yet indicator and target selection is generally delegated to agencies and is not systematically integrated with higher level objectives. At the broader level, there is no overall logic to provide clear and streamlined reporting to parliament or other stakeholders. Future development of the performance framework will need to strike an appropriate balance between sector-specific freedom (in deciding upon appropriate indicators), and system-wide uniformity both in terms of national strategic coherence, and overall reporting and accountability.

With regard to policy evaluation, again the system is rather fragmented with a number of sector-specific ‘inspectorates’ which undertake critical appraisal and assessment. The results of these evaluations are primarily for internal use and are not designed as tools to inform public or parliamentary discourse, nor indeed to link with budget discussions. The Government Offices should enhance co-ordination across the inspectorates to ensure that budget-relevant information is routinely produced in evaluation, and to focus on budget-relevant themes and topics for evaluation. Sweden has recently launched a new spending review initiative to fill an evaluative gap for baseline spending and to make more explicit linkages between evaluation practices and the budget. This worthy initiative is however very modest in scope: To make a meaningful contribution to identifying fiscal space and

reprioritisation, it will need to be rapidly expanded beyond its pilot phase to examine broader areas of government spending.

A current priority of the Swedish authorities is to introduce gender budgeting in Sweden. Building on the established commitment to gender mainstreaming, the approach will focus upon a clear, structured approach to developing policy options, rigorously assessing the gender impact of the alternatives, and using this information explicitly in deciding upon resource allocation. The intention is to re-engineer the budget process so that gender-negative policies are identified and averted from the outset, while promoting gender-responsive policies. The initiative will need to be sustained through developing gender-disaggregated data-sets and establishing a clear, consistent “line of sight” to the gender dimension across all phases of the policy and budget cycles.

As indicated above, the transparency and openness of budget reporting in Sweden are very high, and the administrative apparatus appears to command public trust as regards integrity and quality. Partly for these reasons, the budget process is regarded as primarily an internal concern of the Government Offices, and there appears to be little demand for more proactive engagement by civil society stakeholders and parliamentarians during the policy development phases *ex ante* of the budget. In line with international developments towards more open and inclusive policy-making, the Swedish authorities may wish to consider taking steps to solicit the views and inputs of stakeholders and to promote some participative elements to budget development, building upon established consultative processes in broader areas of policy. Such an approach could also support the government’s initiatives to promote accountability for performance and policy impact (including, but not limited to, gender).

The central government, directly or through its agencies, exercises a strong strategic role in public investment, and the governance of national transport infrastructure, in particular, provides a good model of coherent planning and delivery. There have been criticisms, however, that when deciding upon investment priorities, the results of cost-benefit analysis are not afforded sufficient weight in balance with political considerations, which may lead to sub-optimal investment outcomes.

Public investment in Sweden is carried out in several areas, including housing, and energy facilities; at all levels of government, including municipalities and public corporations; and financed by various means, including EU-funding, transfers or grants. There may be a case for adopting a broader approach to public investment strategy, and for bringing together in the *Infrastructure Bill* a coherent overall approach for developing and maintaining transport and other key infrastructure sectors.

In summary, Sweden has a sound, advanced and effective budget process which meets all of the principles laid down in the *OECD Recommendation on Budgetary Governance*, some (notably in the areas of clear fiscal objectives, quality of independent professional supports, and medium-term budgeting) in exemplary terms. The correspondence of Sweden’s budget system to these budgetary governance principles is summarised in the Annex. In terms of identifying priority areas for future reform, it is notable that several aspects of budgetary policy making are marked by a certain fragmentation which dissipates their ability to impact to most effect on budgetary practice: notably in the area of reporting on fiscal risks, organisation and reporting of government-wide performance information, evaluation and public investment strategy. Advanced practices in areas such as gender budgeting and cross-government collaboration could be leveraged, in future, with advanced initiatives in more open, participative approaches to policy design, budget prioritisation and performance accountability.

1. Economic and Social Context for Budgetary Policy

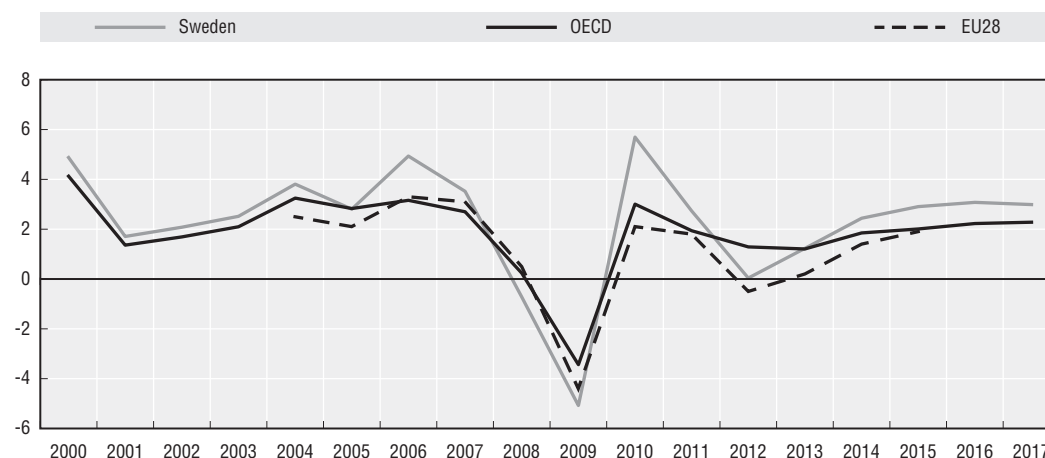
1.1. Macroeconomic context

Sweden is an advanced OECD society that has built sound economic and fiscal models. The Swedish economy has indeed weathered the economic and financial crises well compared to other OECD countries, and the country has employed so far fiscal policy in a way that triangulates fiscal discipline with maintenance of social supports and an economic growth imperative (see OECD, *The State of Public Finances* 2015).

Sweden ranks indeed fifth among OECD countries in terms of the scale of government spending, which amounted to 50.2% of GDP in 2014.

This public spending is sustained by stable government revenues linked to economic growth, and a high level of employment. Indeed, with the exception of 2012, Sweden has experienced stable growth of GDP after the global financial and economic crisis (see Figure 1.1). The growth has been stronger than the OECD average over recent years, averaging 2.5% p.a. between 2010 and 2015.

Figure 1.1. **Total annual GDP growth rate (%) (2000-17)**



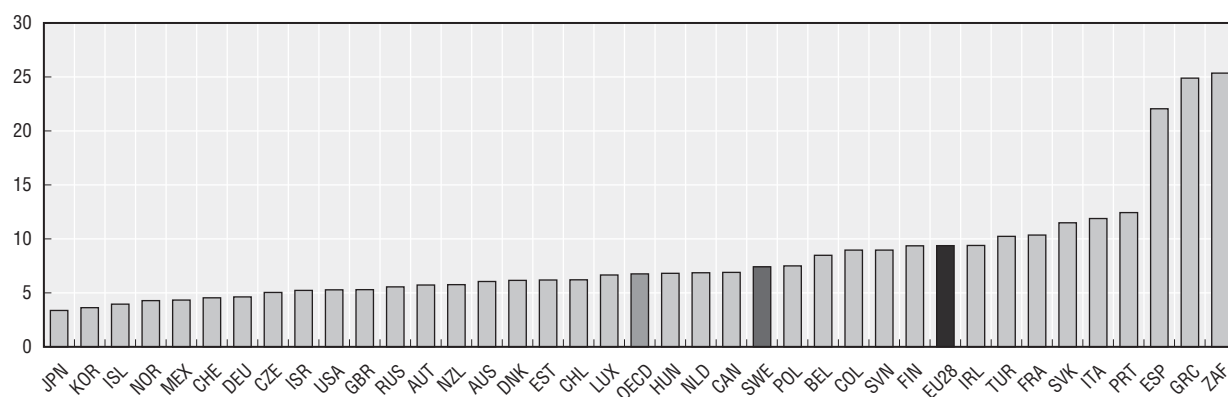
Source: OECD, (2016 [real GDP forecast indicator]); Eurostat (2016).

Sweden's unemployment rate has been declining steadily since 2010 (see Figure 1.2). At 7.4%, unemployment was a little above the OECD average in 2015 but well below the EU average (see Figure 1.3).

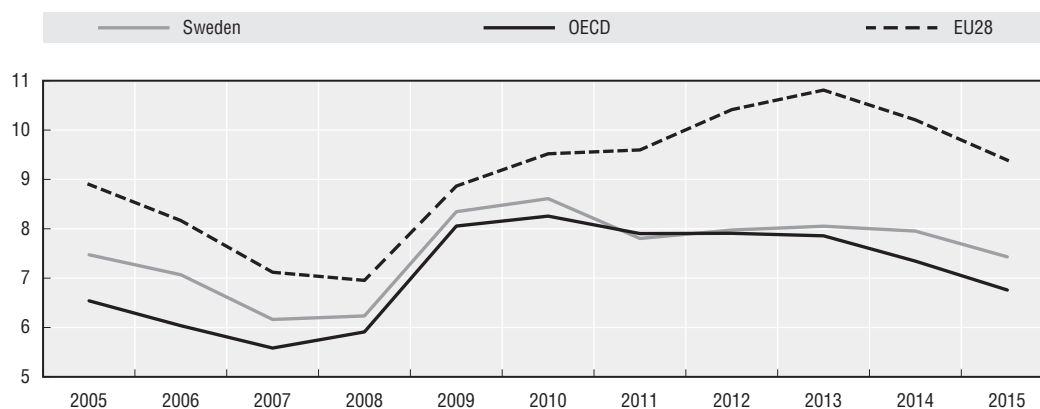
In this context, Sweden has a strong fiscal position, a low deficit of about 1 percent of GDP and the consolidated gross debt, also known as the Maastricht debt, amounts to around 44% of GDP, well below the reference value of a maximum of 60% of GDP, stated in the European Union's Stability and Growth pact.¹

This strong economic and fiscal performance is projected to continue. Indeed, the current economic growth of the Swedish economy is strongly supported by domestic consumption. With decreasing unemployment, this creates a virtuous cycle contributing to improved finances of households and increasing consumer confidence. Beyond the domestic sector, rising net exports also contribute to the positive economic climate.

However, some domestic risk factors will need to be managed vigilantly. These are briefly discussed in the following sections.

Figure 1.2. **Unemployment rate in OECD comparison (%) (2015)**

Source: OECD, (2016 [(unemployment rate indicator)]).

Figure 1.3. **Change in unemployment rate (%) (2005-15)**

Source: OECD, (2016 [(unemployment rate indicator)]).

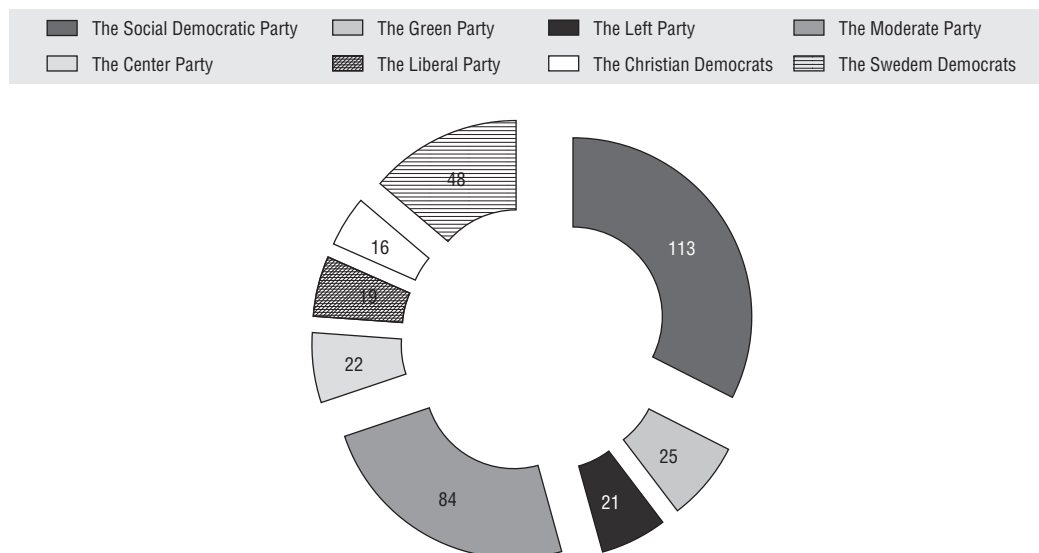
1.2. Political context: *Unsteady power*

Sweden is a unicameral parliamentary democracy. Parliamentary elections are held every four years in September. The Prime Minister is the head of the government. She or he is appointed by the parliament (Riksdag) and chooses a cabinet. In Sweden, the government is not required to win a vote of investiture, and Sweden has from time to time been run by minority governments. The government implements laws that have been decided by the Riksdag. Both the Riksdag and the government can submit draft laws. The Monarch of Sweden is the Head of State and exercises ceremonial rather than executive duties.

Following the parliamentary elections in September 2014, the minority centre-right 'Alliance' coalition government headed by the Moderate Party was replaced by a minority coalition government of the Social Democratic Party and the Green Party, who are supported by the Left Party on budgetary issues. In an unusual development, the minority government failed to get its budget approved in December 2014, as the right-aligned Sweden Democrats party opted to vote in support of the opposition Alliance budget proposal. Rather than view this as a confidence matter, the minority government and the opposition Alliance reached a 'December Agreement' whereby the opposition block committed to abstain from voting down the government's budget proposals in future, in return for a commitment on certain policy principles. The December Agreement has since been abolished, and the government

must contend with the challenges of securing agreement for its policy measures and budget strategy in a fragmented political landscape (see Figure 1.4). It is notable that other OECD countries are currently facing broadly similar challenges.

Figure 1.4. **Distribution of seats in the Riksdag after 2014 Elections**



Source: Sveriges Riksdag, 2016 (www.riksdagen.se/en/members-and-parties/.)

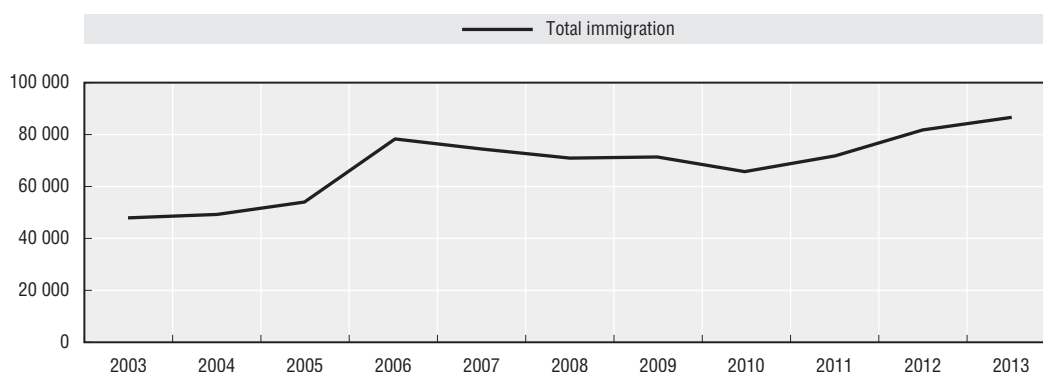
However, the Parliament's decision on the main aggregates of the budget (the level of the expenditure ceiling, the allocations of the budget to the 27 Expenditure Areas, changed tax legislation and revenue estimates) is considered as a package, and settled in a single vote rather than individually. Thus, the main aggregates of the budget must be taken as a whole, as it is not possible to form temporary majorities on certain budget items. As a result of this voting procedure, the opposition parties have little chance of gaining majority approval as long as they continue to present individual shadow budgets to the Parliament, which currently is the case. Hence, the voting procedure in the Parliament could in this way make it easier for minority governments to get an approval of the budget proposal, which to some extent compensates for the Swedish proportional election system and, as a consequence, the frequent occurrence of minority governments in Sweden.

1.3. Current Priorities and Challenges for Social Policy in Sweden

1.3.1. Immigration and related budgetary pressures

As in the case of many other European countries, Sweden has faced a rapid increase in the arrival of refugees from Syria and other countries in the last two years. With around 163 000 immigrants in 2015, Sweden had the highest *per capita* immigration of all OECD countries. Even before the recent developments, Sweden has had the largest immigrant population share among all European OECD countries. Against this background, management and integration of new arrivals has emerged as a dominant factor in political and indeed in budgetary discussions.

Generally, Sweden is comparably well prepared to cope with the challenges of new arrivals. The favourable economic development and labour market situation, as outlined in Section 1.1, in combination with long-standing, well-developed immigration and integration

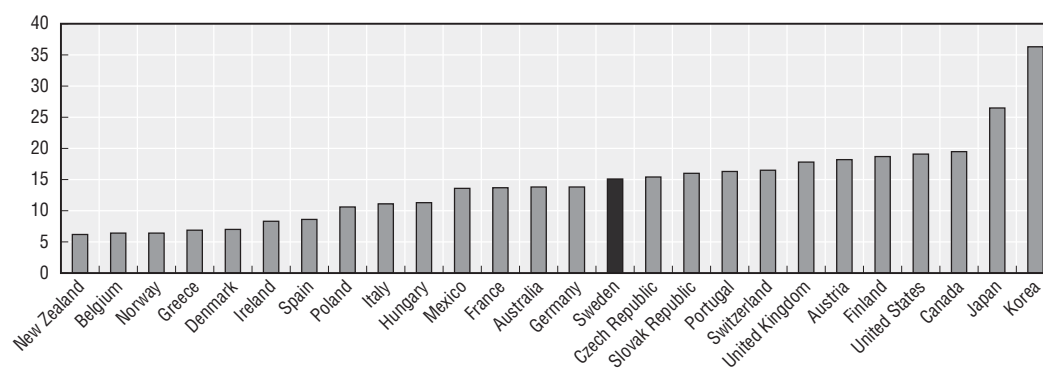
Figure 1.5. **Total immigration to Sweden (2003-13)**

Source: OECD, (2016 [Permanent immigrant inflows]).

policies, give Sweden a good starting position. Nevertheless, there are some acute challenges associated with the large migrant inflow. The two most important are labour market integration (Sweden's labour market is characterised by a very low share (5%) of low-skilled employment, which poses problems of adaptation for foreign-born workers who tend – in proportionate terms – to have less advanced skill-sets) and further pressures on the housing market. In response to these challenges, the Swedish government has introduced border controls and allocated an additional SEK 500 million for integration policies in its budget proposal.

1.3.2. Gender Equality

A second major social issue is gender equality. To emphasise the high priority of this topic within Sweden, the government has styled itself as “the world's first feminist government”, whereas the previous administration titled itself as a “gender equality government”. Although gender equality is already comparatively high in Sweden, in social and political life there is an acute consciousness of the need to tackle underlying issues which remain. Inequalities persist *inter alia* in the subjects pupils choose to study, in the share of part-time work, in access to higher management positions and indeed in pay levels, where women's pay is on average 15% below that of men in comparable positions (see Figure 1.6).

Figure 1.6. **Gender wage gap as a percentage of male wage (2012)**

Source: OECD, (2016 [Employment: Gender wage gap]).

To tackle these persistent gender inequalities, the Swedish government is taking policy initiatives on a number of fronts, including an increase of the share of parental leave reserved for each parent from 60 to 90 days (out of 480). A women-quota is being discussed to increase the share of women in top management. As discussed in Section 7, Sweden is also taking action to develop gender budgeting as an effective tool of national gender equality policy.

1.3.3. Housing Prices

Residential property prices have increased significantly in Sweden, in part reflecting ongoing urbanisation and migration trends together with a limited supply response in urban centres. Despite private and public investment in this sector, the construction response is insufficient, creating tensions on the housing market, and household debt that create a risk for the economic growth.

2. Legal, administrative and procedural framework for budgeting in Sweden

2.1. Legal and administrative context

2.1.1. Legal and constitutional basis for budgeting

Sweden's budget system has a solid constitutional foundation, and some distinctive practices (such as the setting of a surplus target and the medium-term expenditure framework) have been codified over time into the overall legal framework. While particular aspects of the budget framework will be explored in more detail in subsequent sections, it may be useful to begin with an overview of the general legal basis for budgeting in Sweden.

The **Instrument of Government**, one of Sweden's four fundamental constitutional laws, specifies the basic role of the Riksdag (parliament) in legislating, raising taxes and determining how much public money can be spent, and for what purposes, via the process of appropriations.

The 2014 **Riksdag Act** is a quasi-constitutional, organic-type law that deals more comprehensively with the organisation and functions of the Swedish parliament, including some important ground rules for budgeting. The key budget-related provisions are as follows:

- the government must submit a Budget Bill to the Riksdag each year, setting out proposals for central government revenue and expenditure for the following calendar year;
- only one Budget Bill may be submitted each year, and bills which amend the budget are limited to two a year (with the exception of special circumstances); budget amendments for the coming year (after the Budget Bill is enacted) are not allowed unless exceptional economic circumstances apply;
- the Budget Bill must normally be submitted by 20 September, although a deferment is possible (to no later than 15 November) if necessary due to a general election or change of government;
- the government is also responsible for submitting a Spring Fiscal Policy Bill by 15 April each year, setting out guidelines for medium-term economic and fiscal policy.

The Riksdag Act also provides for the grouping of public expenditure under 27 "Expenditure Areas". These are not directly referable to standard international classifications such as the COFOG (classification of functions of government) but rather reflect core themes and priorities of national policy-making – see Box 2.1. Furthermore the

Box 2.1. Key provisions of the Swedish Budget Act

Government activities shall be conducted in line with the principles of effectiveness and good economy.

The government must present a proposal to the Riksdag on a “surplus target” for general government net lending; for reporting twice-yearly on how it is being achieved; and, in case of a deviation from the target, for reporting on how it will be attained.

The government must propose an “expenditure ceiling” for central government expenditure to be used as a reference for the budget process; the proposal relates only to the third year of the medium-term framework, as the expenditure ceilings from the first and second year are carried over automatically from the previous year’s budgetary exercise. The Budget Act is clear that the expenditure limit must not be exceeded, and that the government should take action or propose legislation if necessary to avoid this. (In practice, exceptions can arise following a change of government.)

The government must ensure that an evaluation is conducted on the achievement of budget policy targets.

The principle of universality is laid down, i.e. the budget proposal must deal with all income and expenditure; as well as the principle of separation, i.e. expenditure must be appropriated separately from income, and expenditure measures may not be handled under revenue lines (which would circumvent direct control over expenditure limits). This latter principle is an innovation compared with the previous OECD Budget Review, and ensures that the temptation to overcome expenditure constraints, e.g. by allowing subventions to be accounted for as revenues, is prohibited.

Savings (unused appropriations) may be carried over to be spent in following years; conversely, appropriations may be temporarily exceeded by claiming a “credit” which is deducted from the following year’s allocation.

The government must closely monitor how the budget aggregates develop relative to the budgeted amounts, and has a duty to explain (in the Budget Bill and Spring Fiscal Policy Bill) any significant differences that emerge.

In both Bills, the government must present macroeconomic and macro-fiscal forecasts for the current year and the three subsequent years, making clear the assumptions used. The government must also present, at regular intervals, an evaluation of these forecasts.

Tax expenditures must be reported to the Riksdag by the government each year.

The government must present an account of results achieved in each expenditure area, by reference to the targets adopted by the Riksdag.

Public accounting must be performed in line with generally accepted accounting principles and must give a true and fair view of government activities and of its financial position.

The “government annual report” must be presented to the Riksdag by 15 April each year, following up on the budget decisions for the previous year regarding the surplus target, the expenditure ceiling, the macro-fiscal targets, budget execution, as well as specified financial reports.

Conditions for central government borrowing, previously dealt with in separate legislation, are now incorporated in the Swedish Budget Act.

Riksdag Act states that the decision on the level of the expenditure ceiling, the frames of the 27 Expenditure areas, revenue estimates and tax legislation should be taken *en bloc*, that is with a single vote, and that that the succeeding decisions on appropriations also should be made *en bloc* for each Expenditure area.

The Riksdag Act specifies that further specifications regarding the budget process are laid down in the **Swedish Budget Act**. This law, last updated in 2014, in turn provides further details and specifications on the operation of the fiscal framework and the budget system – notably the surplus target, the expenditure ceiling and the medium-term framework. The various structural and procedural elements of the overall budget framework are discussed in more detail throughout this report; however, Box 2.1 sets out an overview of the key elements of the Swedish Budget Act.

2.1.2. Administrative framework

Sweden's central executive, including government ministries and civil service administration, is known collectively as the Government Offices. In contrast to many other OECD countries which devolve significant powers and 'independence' to government ministries, Sweden's public service has a tradition of collective policy preparation which involves collaborative work across ministries (see Section 2.2.4). The Ministry of Finance works closely with line ministries in preparing budgetary work (especially in the preparation and updating of the expenditure baseline, and in the ongoing development of policy), and it retains a strong co-ordination and directive function as necessary to ensure that the annual process runs smoothly and that fiscal discipline is upheld (see Section 2.2.2). However, much of the work of executing government policy is handled via a large network of state agencies which enjoy significant autonomy in delivering their services, subject to a close reporting relationship with their respective policy ministries (see in particular Section 3.2).

Sweden's 350 agencies have considerable independence, relative to many other OECD countries, and it is prohibited for a minister to intervene directly in an agency's day-to-day operations regarding the application of its mandate in individual cases. Collective government decision-making and the ban on instructing agencies on individual matters are expressions of the general prohibition of 'ministerial rule'. Instead, agencies are guided by the Government Offices through ordinances. Each agency's ordinance provides medium-to-long term instructions on the strategic direction, its mandate, powers and general instructions. Annual guidance, if any, is contained in the annual budget appropriation letter, specifying financial terms for each agency's operations and providing year-by-year direction on shorter term objectives. A minister or official of the Government Offices cannot intervene in an agency's decisions relating to the application of the law or the due exercise of its authority. This organisational model preserves the Swedish collective Government decision-making approach, discussed in more detail in Section 2.2 and throughout this report.

In carrying out its budgetary work, the Ministry of Finance benefits from the inputs, perspectives and critiques of a number of different agencies and institutions, as follows:

- The **National Audit Office** (NAO) is Sweden's supreme audit institution, with full statutory independence under the Riksdag, responsible for auditing the government's Annual Report both as regards financial and performance-related matters. The NAO also conducts performance auditing of the Budget Bill.
- The **Fiscal Policy Council** (FPC) is an independent fiscal institution with *de facto* as distinct from *de jure* autonomy, which both serves as a 'watchdog' regarding compliance with the

fiscal rules, and provides critical commentary regarding structural and systematic issues of fiscal policy in Sweden.

- The **National Institute for Economic Research** (NIER; Swedish *Konjunkturinstitutet*) is a government agency under the aegis of the Ministry of Finance. It prepares independent economic forecasts and analyses which feed into government economic plans and policy impact analyses, and it develops economic forecasting models.
- The **National Financial Management Authority** (*Ekonomistyrningsverket* or ESV) is a government agency that develops national public financial management tools and accounting rules, and provides guidance on financial management generally, including in the context of administering EU funds. Due to its close relationships with ministries and agencies in financial management, the ESV makes a valuable contribution to government expenditure monitoring and forecasting.
- The **National Debt Office** (*Riksgälden*) is the agency that handles debt issuance and risk monitoring, as well as banking services for the central government and state guarantees/loans.

The institutional environment for budgeting in Sweden is examined in more detail in subsequent chapters.

2.2. Sweden's annual and multi-annual budget processes

2.2.1. The annual budget cycle in Sweden

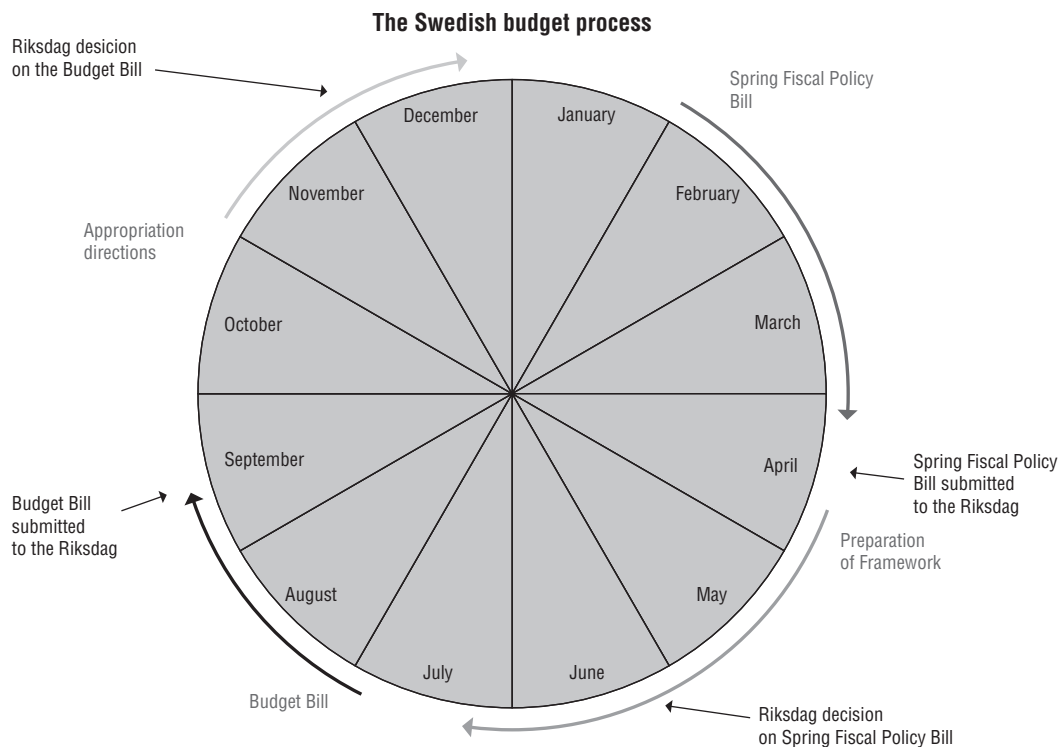
The reforms introduced in Sweden in the 1990s, and which continue to this day with some refinements, were intended to introduce a top-down character to budgeting, anchored within a sound, steady framework for fiscal policy. Accordingly, the annual budget is not a standalone event but is part of a multiannual chain of decisions which are designed to promote prudence and sustainability. These foundational principles are similar to those that have shaped Germany's budgeting system over recent years (see OECD, 2015) but, as this report outlines, the modalities chosen to achieve these objectives in Sweden's case are quite distinct.

Against a background of a 1% surplus rule which provides a familiar fiscal constraint, budgeting in Sweden is sequenced via a series of events over the course of the year, progressing from the presentation of high-level fiscal aggregates in spring through to the more detailed budgetary proposals in the autumn. Indeed, the Swedish "whole of year" budgeting model – which has remained mostly intact since the 2002 OECD Budget review – appears to have served as an inspiration for EU-wide economic governance reforms of recent years, whereby a common "fiscal semester" in April is now complemented with a "budget semester" in October. The annual budgetary cycle in Sweden is illustrated in Figure 2.1 below and is described in more detail in this chapter.

2.2.2. Fiscal constraint: the 1% surplus rule

As outlined in Section 2.1 above, the Budget Act requires the government to present a proposal to the Riksdag on a "surplus target" for the public finances, and for twice-yearly reporting on its achievement. The law does not specify what the target should be, but since 1997 the target has remained stable at 1% of GDP (in fact the nominal figure of 2% of GDP was set in 1997, but this was subsequently adjusted to the current 1% figure to reflect an accounting adjustment in the treatment of pension fund assets). From its inception, the surplus target has been set in cyclically-adjusted terms to avoid an unduly pro-cyclical

Figure 2.1. The Swedish budget process



Source: Adapted from Swedish Ministry of Finance.

budgetary impact. In practice, the 1% surplus rule has acted as a firm anchor for the entire budgetary process and this, along with the fixed medium-term expenditure framework, is an essential element of the “top down” architecture of budgeting in Sweden.

Some observers characterise the 1% surplus rule as an “institutional memory” designed to retain lessons from the crisis period in the 1990s, and the rule is notable for its relative clarity and simplicity. However, the “institutional memory” appears to be fading or at least to be weakening in its normative character. In fact the 1% surplus target is now under challenge from a number of fronts.

- In the first instance, the target is now more openly queried as a potential undue constraint upon political freedom of action, in the face of ongoing needs for public investment and (arguably) macroeconomic stimulus. The fact that Sweden’s public debt position is much healthier than in many other OECD countries reinforces this doubt.
- Second, the 1% target itself has come in for criticism, including from the Swedish Fiscal Policy Council. The FPC has commented that the “general government sector”, while calculated in line with EU rules, includes the balance on public pension funds, which – for inter-generational and financing reasons – are currently in surplus but will not remain so indefinitely. Moreover, the precise method used for calculating the cyclically-adjusted figure has changed over time, potentially (in the view of the FPC) undermining the binding character of the 1% surplus rule.
- Third, the broader EU economic governance system has involved more highly-specified fiscal rules, with a general norm of budgetary balance, arguably obviating the need for a domestic 1% surplus rule in Sweden (see Box 2.2).

Box 2.2. Sweden and the EU Fiscal Framework

Sweden, like all other EU members, is bound by the 3% limit on the general government deficit and the 60% ceiling on general government debt. Sweden is also bound by the EU Stability and Growth Pact (SGP), which goes beyond these EU Treaty provisions to require *inter alia* that public finances be managed “close to balance or in surplus” over the medium term. Unlike euro area members, Sweden is not subject to the EU sanction mechanisms (fines etc.) although it can receive warnings for breaches of the SGP provisions. Sweden submits a “Convergence Programme Update” to the EU every April, setting out the country’s multi-year fiscal policy objectives and some associated economic analyses (Euro-area countries submit an analogous “Stability Programme Update” at this time). In practice, Sweden’s domestic fiscal framework – which largely pre-dates the SGP – has ensured compliance with the EU-wide rules and Sweden has not, to date, received a warning for breaching the EU provisions.

Sweden is also subject to the more recent, strengthened EU economic governance framework, although the more stringent provisions (including expenditure ceilings and annual debt-correction adjustments) are not applicable, given the relative health of Sweden’s public finances. It is notable, for example, that Sweden has not been subject to the euro-area expenditure benchmark, which (in broad terms) limits the annual rate of structural growth in public expenditure (given constant tax rules) to the underlying rate of GDP growth, as Sweden’s structural net lending has been above its medium-term objective level. Sweden’s own “crown-for-crown” rule (see below), which shares some similarities with the EU expenditure ceiling, is not a legal requirement but a political practice.

Finally, Sweden is a signatory to the Fiscal Compact Treaty, which embodies and clarifies the various EU economic governance rules, although Sweden – as a non-euro-area country – has not opted to be bound by the various economic and fiscal provisions (notably fines for non-compliance).

In its practical effect, the influence of the surplus rule now appears to be waning. It is notable that, in the April 2016 medium-term fiscal forecasts for 2016-19, the surplus rule is not met in any of those years. The 1% rule has in practice been attenuated to a longer-term aspirational goal, rather than a fiscal target with which the medium-term figures must comply.

The Riksdag established a cross-party committee in June 2015 to consider the future of the 1% surplus target more broadly. The committee is due to report in October 2016, and its conclusions will test the extent to which a political consensus remains in place for retaining the 1% surplus rule.

2.2.3. Fiscal Forecasting: Operationalising the 1% Surplus Rule

Sweden’s Ministry of Finance devotes a lot of attention, throughout the course of the year, to keeping abreast of annual and medium-term economic and fiscal developments and feeding these analyses into budget preparations. In fact, a full set of economic projections is prepared five times during the year, two of which are directly for publication, the other three being mainly for internal use.

- The *January/February* forecasts set the scene for the annual fiscal policy preparation process, using the latest outturn data from the previous year. This set of forecasts includes, for the first time, the projections for the incoming fourth year of the multi-annual cycle.

- Another set of forecasts are prepared in *March* to inform the preparations for the Spring Fiscal Bill, and so are published. These forecasts are also used for the government's assessment of setting the indicative aggregate expenditure ceilings for the third (and the fourth) year that are presented in the Spring Fiscal Policy Bill.
- In *May/June*, the figures are updated once again to set a basis for negotiations with line ministries on their budget requests.
- In *August/September*, the new round of forecasts is used to inform the Budget Bill and is published in that context.
- In *December*, an internal set of forecasts is produced showing the updated end-year projections.

The economic projections in the first quarter of the year are based upon existing expenditure policies and rules. The forecast presented in the Spring Fiscal Policy Bill adds in to the baseline the impact of any new discretionary measures in the spring supplementary budget.

Different assumptions regarding indexation are used for different categories of expenditure. A substantial part of the expenditure side of the budget grows at a slower pace than GDP or wages, assuming constant volumes in household transfers, while most taxes grow in line with GDP, assuming constant tax rules, with the result that this “bottom up” aspect of budget-building tends to impart a “surplus bias” to the public finances.

Taken together, the above analyses (both top-down macroeconomic figures and the bottom-up baseline projections), along with the fiscal constraint of the 1% surplus rule, inform the considerations regarding the appropriate level of the expenditure ceiling for the new year 3 of the medium-term framework, as outlined in more detail in Section 2.3. While much technical analysis underlies these considerations, the expenditure ceiling that is presented in the Spring Fiscal Policy Bill and the subsequent proposal of the ceiling presented in the Budget bill are ultimately political statements, and are not reducible to the outcomes of a technical exercise.

In light of this, the Ministry of Finance assesses whether the forecasts and baseline projections are compatible with compliance with the fiscal rules in each year. Any remaining fiscal space is referred to as “room for reform”. If no fiscal room is available, consolidation measures may need to be brought forward for consideration in the context of the subsequent negotiations with line ministries.

All of these elements – forecasts, baseline analysis, expenditure limits and frames for Expenditure Areas – are presented in the Spring Fiscal Policy Bill in mid-April along with the government's narrative of economic policy and outlook.

2.2.4. Maintaining political orientations in the budget process

In parallel with the technical strand of budgetary policy formulation, as in most countries a political strand of discussions gets under way from an early stage to ensure that the budget takes proper account of governmental priorities. General discussion on political priorities takes place as early as December of year *y-2* (e.g. December 2015, in respect of the budget year 2017), so that any key messages can be reflected in the Guidelines for the annual budgetary process decided by the Budget Director which issues to line ministries in early January (also known as the Budget Circular).

The Guidelines for the annual budgetary process sequences and directs the budget process for the coming year with a focus on the preparation of the Budget Bill. The Guidelines take as starting points the fixed dates within the annual budget calendar – i.e. the Spring Fiscal Policy Bill which must be presented by 15th April at the latest, and the Budget Bill which must be presented by 20 September at the latest – and it specifies the dates by which line ministry budget proposals must be submitted, the financial constraints and rules that must be observed (e.g. how the “crown for crown” rule should be applied – see below) as well as special policy considerations. For example, the Guidelines for the annual budgetary process 2016 included instructions on how the new government-wide emphasis on gender budgeting should be implemented (see Section 7.2). Having set the “ground rules” for the annual budgetary process, the task of policy formulation gets under way.

During February-April, high-level working groups involving the Ministry of Finance and the Prime Minister’s Office meet regularly to help identify political and policy priorities which ought to be reflected in the budget deliberations. These discussions are informal and help to structure thinking and planning processes; they do not lead to definitive policy conclusions at this early stage. However, when line ministries present their “budget request” in May, it is expected that they will reflect the discussions and orientations from the spring meetings.

Subject to these broad political considerations, the details of the budget policy proposals are primarily a matter for negotiation between the Ministry of Finance and the line ministries. All new spending proposals – generally referred to in the Swedish system as “reforms” – are decided once a year in this budget negotiation period. In the context of coalition government (which has been the case since 2006 in Sweden), important reforms are negotiated at a central level between the finance minister and one or more other ministers and state secretaries representing the constituent parties. The overall fiscal space available for these discussions – the “room for reform” – is based on the calculations and forecasts of the Ministry of Finance.

After the budget has been approved by parliament, its provisions are communicated to the agencies, and “appropriation directives” are issued by the government to the agencies setting down criteria and objectives that must be observed during budget execution: This process is outlined in more detail in Sections 3 and 5.

2.2.5. Dealing with the Budget requests: Negotiations with the line ministries

Unlike most other OECD countries, the process of specifying the detailed budget allocations is not primarily a bilateral process between a line ministry and the Ministry of Finance, but rather – for many areas of policy – reflects a series of multi-lateral engagements and policy discussions, which culminate (as far as resource-allocation is concerned) in the specific “budget requests” submitted by the line ministries in May. In a normal year a very large part of the budget requests are rejected by the Ministry of Finance, either because of a lack of corresponding expenditure cuts or because of a risk of reduced efficiency.

Sweden’s fixed expenditure ceilings and indicative frames for Expenditure Areas provide a solid framework for realistic discussion about policy priorities and trade-offs. The top-down system requires that new spending priorities must usually be matched with offsetting savings elsewhere within that expenditure area, unless there is some scope for unfinanced reforms and the reform is considered to be of high political importance. The officials of the Ministry of Finance can exercise the prerogative to de-prioritise proposals

that intrude upon the fiscal constraints or are considered inefficient, whereas significant proposed additions, with policy sensitivity, can be escalated for decision at political level.

In balance with this top-down character of budgeting, policy-making in Sweden has a remarkably collaborative character, whereby policies that involve more than one ministry are, as a general principle, discussed and progressed as a joint enterprise by the ministries concerned (see Box 2.3). The culture of *gemensam beredning* (joint preparation) also infuses the budget process, as discussions on the budget proposals are carried forward at political and official levels through to August, when final determinations are made at a cabinet meeting in the latter part of that month.

**Box 2.3. “Silo-busting” in Swedish policy-making:
The practice of *gemensam beredning***

As in many countries, Sweden’s government operates on the basis of “collective cabinet responsibility”, a concept grounded in the constitution. In Sweden’s case, the rule is interpreted so that all ministers are collectively responsible for all acts and policies of government. Therefore decision-making and policy-formulation are conducted in a way that is in line with these shared responsibilities. The administrative practice that has been adopted to give effect to this principle is known as *gemensam beredning*, collective or joint preparation, and is applied for any policy issue which crosses more than one ministry or agency. In such a case, all relevant ministries – usually involving the Ministry of Finance – are involved collectively in discussions and decision-making, and the file is brought to cabinet for decision under the name of all relevant ministers. The strength of the Ministry of Finance is amplified by the fact that all proposals with economic, financial, budgetary or organisational consequences require an approval from the budget department, as otherwise the proposals may not be taken to the government for decision.

In practice, those officials working in areas of central relevance to policy-making – education, labour market, social insurance as well as the Ministry of Finance – will expect to be called upon regularly to comment and contribute views. Rather than view the process as inefficient or overly time-consuming, officials report that the process helps them to gain perspectives relevant to their own work area, and the approach seems to have overcome the problems of “silo culture” experienced in many other national administrations.

The Ministry of Finance does, however, maintain its role as *primus inter pares* in deciding upon detailed budget allocations, as it determines the “room for reform” in advance of the August political discussions and provides updated projections on the budget margin. In practice, the budget margin evolves in this context from a prudent buffer amount (as it operates for the outer years of the medium-term framework) to a reserve expenditure fund to facilitate new spending priorities, if circumstances permit, thus allowing some flexibility as a “prudence dividend”.

The process of bringing forward the Budget Bill for approval by parliament is outlined in more detail in Section 4. Once the budget has been settled, its provisions are communicated to the agencies, and the “appropriation letters” are issued by the Government setting down criteria and objectives that must be observed during budget execution: This process is outlined in more detail in Sections 3 and 5.

2.3. Medium-term budgeting in Sweden

While budgeting in Sweden retains an annual legal character, in practice the multi-year framework imposes significant constraints upon what may be decided during the annual process. The law provides that, as is the case in many other OECD countries, the annual fiscal and budgetary documentation includes details for the budget year and a perspective on the following two years. For each of these three years, an overall, aggregate expenditure ceiling is proposed for approval by the Riksdag, and each ceiling has *de facto* binding effect. (In practice, since 2010, Sweden has provided data for an additional year, with an indicative non-binding expenditure ceiling, so that the perspective of medium-term framework spans four years.) While there is nothing in the law preventing the Riksdag from re-opening the fixed expenditure ceiling each year, no government has to date changed the expenditure ceiling which it has introduced. The Ministry of Finance maintains the position that the expenditure ceilings may not be re-visited from year to year, as to do so would undermine the effectiveness of the medium-term framework. The law requires that once an expenditure ceiling has been approved by the Riksdag, the government must take all necessary measures to avoid exceeding the ceiling, including proposing legislative measures to the Riksdag if necessary.

As outlined above, expenditure in Sweden is classified into 27 Expenditure Areas, which form a basis both for budgeting and reporting on performance (see Section 3). The fixed expenditure ceiling covers all 27 areas, apart from area 26 (which deals with interest payments on government debt), and with the addition of old-age pension expenditure which is financed from a public pension fund rather than from annual appropriations. The total arrived at in this way is “ceiling-restricted expenditure”, and this level also allows space for a prudent budget margin (see below) within the legally-mandated fixed expenditure ceiling, as illustrated in Table 2.1 below.

Table 2.1. **The Fixed Expenditure Ceiling and Budget margins 2015-18**

SEK billion, rounded

Heading	2015	2016	2017	2018
Expenditure Areas 1-27	872	923	959	980
Less debt interest (area 26)	846	912	938	954
Old age pension expenditure	267	286	302	319
Ceiling-restricted expenditure	1 113	1 198	1 240	1 273
Budget margin	47	17	33	59
Expenditure ceiling	1 158	1 215	1 274	1 332

Source: Adapted from Swedish Ministry of Finance.

The aggregate expenditure ceiling for the third year is proposed in the budget bill in the autumn together with expenditure frames for each of the Expenditure Areas for the next fiscal year and indicative expenditure frames for the outer years of the medium-term framework. These indicative expenditure frames are not binding and are prepared on the basis of proposed and announced policy-changes in the budget bill. The function of the expenditure frames is to provide clear budget constraints for (a) the government’s internal processes of budget re-prioritisation and reallocation and (b) the Parliament’s two stage decision process for the budget (see Section 4). The expenditure frames also give policy-makers a reasonable perspective on the level of resources likely to be available for their sectoral areas each year.

2.3.1. Flexibility in medium-term budgeting

This principle of compliance with the expenditure ceilings appears to be widely understood within Sweden's public administration, and lends a strong, medium-term continuity to the budgeting and planning processes. The application of this principle is facilitated by the operation of the "budget margin" amounts, which are buffer amounts within the overall expenditure ceiling and which provide some measure of flexibility, from year to year, to respond to emerging pressures without re-opening the overall expenditure ceiling for that year.

It is important to note that the budget margin is not included within the budgeted figures, i.e. it is not an appropriated amount, and therefore if it is drawn upon it will cause the fiscal balance to deteriorate. The primary purpose of the budget margin is to provide a macroeconomic stability buffer, within which the automatic stabilisers may operate, while allowing the fixed expenditure ceiling to be respected. From time to time however, the budget margin amounts have come under pressure. Presently, in light of the unprecedented pressures from the refugee crisis, the inherent flexibility within the Swedish system is extended to its point of tolerance (see Box 2.4). Maintaining the expenditure ceilings for future years with the same fixed character as before, while taking account of this new baseline factor, will be an important test of the resilience of the Swedish framework. It is possible that additional flexibility mechanisms – such as a contingency reserve or "rainy day" fund – would be a useful addition to the Swedish system, which would serve to protect the integrity and force of the expenditure ceilings into the future (see OECD, 2015).

Box 2.4. Sweden's "budget margin" in practice

The budget margin is a tool to balance the medium-term rigour of the Swedish framework with year-to-year flexibility. The margin is calculated according to the guiding principle that actual expenditures should be allowed some leeway to move automatically in response to macroeconomic developments, without jeopardising the overall expenditure ceiling. To achieve this, the government's guidelines specify that the budget margin should amount to at least 1.5% of ceiling-restricted expenditure for the budget year (year y), 2% for the following year (year $y+1$) and 3% for each of the following two years (year $y+2$ and $y+3$). In practical terms, the budget margin is left unaccounted for (and unbudgeted for) within the annual budget allocations and multi-annual expenditure ceilings. The budget margins are not regarded as "contingency reserves" but rather as operational stabilisation mechanisms.

In light of the projected pressures arising principally from refugee costs, the fiscal forecasts presented as part of the Spring Fiscal Policy Bill in 2016 do not meet the above minimum guidelines for all years of the forecast period.

3. Performance and Evaluation frameworks

3.1. Performance and budgeting in Parliament

Information on the performance of Sweden's government is integrated as part of the annual budget cycle, in the executive and in parliament. The central government's broad performance objectives are roughly aligned with the thematic budget architecture and the performance plans and reports presented to parliament as part of the annual Budget Bill.

In the Budget Bill, performance information – like spending plans – is segmented into the 27 Expenditure Areas for all central government operations. The government commonly

proposes about two or three performance objectives for each Expenditure Area in the Bill, all of which is agreed in a single vote by parliament – the ratification of the Bill. Except for indicators in policy areas of high political priority, these performance objectives are usually developed at technical level by agencies before gaining the approval of the Government Offices and ministers for presentation to parliament.

The performance objectives are usually broad and are intended to represent performance concisely across an expansive policy domain. The objectives frequently touch upon multiple aspects of government operations. The government's performance objectives commonly possess important qualities for higher-level scrutiny. For example, most, though not all of the performance objectives of Sweden's government have historically had performance indicators to correspond with, and track progress toward, respective objectives. The objectives are typically formulated as a mix of outputs and outcomes, many of which are stable over time and formulated in terms of faraway impacts. In some cases, the objectives are measurable and time-specific. Work remains to enhance the measurability, relevance and timeliness of indicators system-wide.

Sweden's government has not taken a uniform approach to performance objective selection. This is a pragmatic approach. Objectives and indicators are chosen to suit the relative span of influence the government exercises on impacts in each policy area. The indicators used to measure progress toward performance objectives are comprised of a mix of operational data, statistics and evaluations. International data is sometimes used and certain expenditures areas are compared to benchmarks (e.g. education performance for the OECD Programme for International Student Assessment, or PISA). These selection qualities support a stable, functional performance framework at the level of the broadest policy objectives of government. Removing indicators in areas where there is a weak cause-and-effect relationship between government policy or budget choices and outcomes, as in Sweden's case, has two benefits: it focuses management attention on areas for which output and outcome indicators are most relevant; and it reduces information volumes and the perception of information overload.

In principle, performance information in Sweden is an important channel for parliament's role in holding the government to account. Following budget reforms in the mid-1990s, agencies were provided greater operational flexibility by consolidating parliamentary approvals for operations into a single appropriation. Parliament, the government offices and agencies have arrived at a *quid pro quo* with greater operational discretion provided to agency management, conditioned on regular reporting on performance. In this regard, both the executive and parliament appear to be broadly satisfied. The Government Offices and agencies enjoy greater operating flexibility and parliament is generally content with the quality of information it receives concerning government performance and results.

Nevertheless, performance information lacks influence in parliament's budgetary dialogue. The information provided within performance reports strikes an appropriate, albeit difficult balance of comprehensiveness and detail. Yet, there are weak practical linkages between the performance information provided in the annual reports of agencies and the proposed appropriations for the upcoming budget year. The annual report from the government, presented simultaneous with the Spring Fiscal Policy Bill and audited by the National Audit Office, contains some statistical information that explains important expenditure items on the budget, but does not contain performance information as such.

The Government is engaged in much needed work to strengthen the linkage between the performance information and the budget proposal in the Budget Bill and to enhance the budget relevance of the annual reports from the agencies.

Another continuing challenge to further integrate performance information in budgeting, common to many OECD countries, is the quantity of information to consider. Sweden's parliamentarians receive volumes of information each year, which they are then required to distil to a finite number of fiscal policy choices. Parliament and its committees do not, at this time, have dedicated resources for distilling and synthesising performance and financial information into useable analyses. Volumes of difficult-to-assess information discourage analysis; and limited analytical use further discourages investments to improve the presentation of performance information. Sweden's government has made recent efforts to streamline performance data, emphasising only what it deems to be the most relevant pieces of information, but there is room for continued progress in this regard. Information technology tools have potential to enhance accessibility and relevance of performance information in all OECD countries. Sweden currently scores low in the OECD OurData Index on open data in government, and exhibits potential for gains in this regard.²

Box 3.1. Information technology can address performance information overload and relevance

The United States Office of Management and Budget has developed – performance.gov – a central website with searchable, machine-readable data on the progress toward agency and government goals and targets. The site tracks changes to strategic objectives over time, with an explanation for changes.

The European Commission has developed the EU Budget in my country tool to improve accessibility and stakeholder relevance for information on the thousands of projects in the 28 European Union member countries.

It is also difficult for many parliaments to establish relevant linkages between end-of-year performance metrics and discretionary funding choices. Performance reporting in isolation is rarely enough to establish cause and effect. Limited knowledge on the relationship between altered funding levels and policy effects further limits the relevance of the information detailed in performance reports. And so, supplemental pieces of performance information may be required – such as evaluations and spending reviews – to complement the existing performance budgeting tools in place.

3.2. Performance and budgeting in government

The role of Sweden's agencies is to put the Government's policy into effect – transforming intent into results. The political objectives of the government are implemented by steering agencies using two types of formal instructions³:

1. *Ordinances* provide medium-to-long term instructions on the strategic direction of agencies. The Ordinances describe each agency's mandate, powers and general instructions.
2. *Appropriation Letters* specify financial terms for each agency's operations and provide year-by-year direction on shorter term objectives.

Since 2001, these tools have been the foundational elements for the Cabinet and its administrative arm – the Government Offices – to express to agencies the government's

policy ambitions and expectations for performance. The two sets of instructions are the lynchpin for the connection between policy direction at the Government Offices, and agency operational performance and results.

Apart from these two steering mechanisms, agencies in Sweden operate under a tradition of operational autonomy, as has been outlined above. This tradition is one that pervades the operations of each agency and ministry, including the Ministry of Finance. The Ministry of Finance accordingly perceives its role in performance in budgeting as one of creating conditions for performing toward government goals: a responsibility for establishing the broad performance guidelines for agencies; for improving the overall quality of performance information; supporting agencies and other ministries; and following-up on compliance with common guidelines.

The role of the other ministries in the Government Offices is to transform general and periodic policy guidance into an ongoing, informal performance-informed dialogue with agencies. The ministries also assist in consolidating end-of-year agency performance reporting into user-friendly and comparative formats that can be transmitted to the centre of government.

Except for top political priorities, most aspects of performance budgeting and management are largely left to the discretion of the agencies: selecting performance information types, setting appropriate targets and generating and managing relevant data. This approach provides agencies with discretion to present the information that they deem most suited to representing their performance and most realistically aligned with their span of control on outputs and outcomes.

The budgetary framework is the foundational element of performance management and budgeting in Sweden. The annual expenditure ceiling forces ministries to prioritise spending within expenditure areas to make place for new demands in the annual budget. This provokes the use of performance information as part of the priority-setting process. As part of a more detailed and formalised process, each agency is required to present a statement of operations to their parent ministry in the annual report to detail what the agency has accomplished during the past year, mainly in terms of performance toward goals and operating costs. This information informs an annual objectives-and-results dialogue between senior agency leadership and the responsible ministry.

The government's performance steering – using the Ordinances and Appropriation Letters – has been central to the Swedish government's performance system since 2001. However, the relative importance of each instruction has shifted over time. General guidance contained in Ordinances is now emphasised in place of detailed instructions within annual Appropriation Letters. Sweden's government has removed detail concerning operational direction in many Appropriation Letters, which are instead used to communicate financial terms for agencies. Today, Appropriation Letters are seldom used to specify performance objectives except in sectors that are political or policy priorities.

The rationale for this evolution is to encourage longer-term perspectives for agency performance and create greater separation between the steering of agencies by the Government Offices and the annual budget process. The changes are aligned with recommendations of a 2007 independent special examination, entitled Swedish Government Official Report SOU 2007:75, which concluded that steering agency performance through the annual budget process “contributed to a short-term perspective in the steering of agencies and to unreasonable and uniform requirements on agencies to provide information”.

The same 2007 special examination was “very doubtful about the notion that outcome-related or impact-related and more overarching objectives are a good way of transforming political ambitions into the steering of agencies.” And so, in 2009 Sweden’s government began to de-emphasise performance directives expressed in terms of outcomes or impacts beyond the direct control of the agency. Following the recommendation of the special examination, agency objectives are now more aligned to indicators that “can be achieved within the framework of the agency’s powers.”

Similar changes were made in 2009 to remove central guidance on agency leadership. The same SOU report recommended as follows: “Accountability has to be linked solely to what the leadership of an agency has immediate responsibility for and can control. [...] Even in cases where an agency does a good job, and the head of the agency has acted with skill, it can still be the case that the overall objectives of its activities are not achieved. This means that the responsibility of the leadership of an agency cannot be tied to results in relation to higher-level aims and objectives that the agency itself does not have in its control.”

Resulting from these changes, most Swedish agencies now have considerable freedom to choose performance indicators and targets suitable to their operations. Sweden’s system of performance provides agencies with discretion to present the information that they consider most suited to representing their performance and most realistically aligned with their span of control on outputs and outcomes.

These changes have better aligned the performance information presented by agencies – to the government and the parliament – with the real operational management of agencies. Positively, there has been a scaling back of the uniform requirement to link all agency operations with outcome objectives. Rather, where the agencies suspect there is limited causal link between inputs, agencies activities and outcomes, output and activity indicators are emphasised. The Ministry of Finance has indicated that the quality of information and performance-oriented dialogue has improved under these reforms. The expectations of performance dialogue in budget negotiations are now considered to be more realistic, if less grand.

These reforms have been designed to shift the focus of effort in Sweden’s performance budgeting system from one of reporting against centrally specified indicators, to one of a performance dialogue more aligned with the day-to-day performance management of agencies. The consequences of these revisions may not be perceptible for several years.

The removal of conventional lines of accountability – setting explicit performance targets in annual budget negotiations and focusing on a longer-term perspective for performance measurement – have clear potential to improve on short-termism and the tendency to ‘manage-to-indicators’. However, combined with the removal of input controls in the early 2000s, there are fewer points of direct internal accountability in budgeting than in the past. The Government Offices have ceded influence in selecting and scrutinising not only inputs, but outputs and outcomes. These are calculated risks to the coherence and quality of public spending – ones worth monitoring at Sweden’s Government Offices and in parliament.

3.3. Evaluation of expenditure programmes across the policy cycle

The evaluation of agencies and their activities occurs in various forms in Sweden, rather than in a unitary approach. The procedures are generally highly regarded and well-accepted in the Swedish system of government, though none is expressly designed to complement the budget process.

The longest-standing evaluation procedure is that of commissions of inquiry, an integral part of the consultative style of decision-making in Sweden. More recent forms of evaluation are performance audits at the National Audit Office and evaluations by inspectorate agencies.

3.3.1. *Commissions of inquiry*

Sweden's government has a decades-old tradition of conducting **commissions of inquiry**, an approach to examine various alternatives for new laws before the Parliament. Commissions can comprise one or several people and may include experts, public officials or politicians. When the government appoints a commission, it sets out guidelines for its work, including questions to be examined by the commission, problems that need to be addressed and the expected date by which the Government wants the commission to complete its inquiry.

The scope of work for commissions of inquiry is usually broad, spanning the operations of several agencies. This is unlike other forms of evaluation in Sweden – National Audit Office Performance Audits and analyses of inspectorates – which typically are narrow, often confined to a single agency or activity.

Commission findings are submitted in a report to the Government as part of a series called the Swedish Government Official Reports (SOU). These reports are public and stakeholders and members of civil society can submit comments to the Government. Commission findings and recommendations are generally well-regarded and are often used to substantiate policy and process changes in government. They are produced, however, outside of the budget cycle and do not necessarily produce findings on efficiency, effectiveness and economy relevant to budget allocation choices.

3.3.2. *National Audit Office performance audits*

Sweden's **National Audit Office performance audits** are used to ensure the state is getting good results for its efforts, with regard to the interests of the general public. The NAO audits government authorities' efficiency, to examine how well the subject of the audit is achieving its goals and the appropriateness of the organisation, operations, process, or function for the purpose.

The NAO publishes about 30 performance audit reports per year. The reports are submitted to the Parliament which in turn submits them to the government for statements. The government must then within four months report which measures it has taken and which it intends to take.

NAO performance audits are generally followed upon in a parliamentary committee discussion. The level of discussion among sector committees regarding NAO reports is often rich in quality and focused on specific findings of NAO reports. Simply put, these committee discussions are more than a pro forma exercise and are an important part of the *ex post* budget process.

The commissions of inquiry and the National Audit Office performance audits constitute the formal external performance assessment function for government. They are commonly perceived as credible and legitimate. However, each follow formal procedures and examines issues intermittently, not wholly conducive to budget deliberations.

3.3.3. *Inspectorate agencies*

And so, in the past decade, a less-formal evaluation function has emerged for many agencies. Sweden today has a network of **inspectorate agencies**, each associated with one

or more spending agencies, and these inspectorates act as a sector-specific external evaluator. For example, the Swedish Social Insurance Inspectorate scrutinises the work of three agencies: Swedish Social Insurance Agency, the Swedish Pensions Agency and the Swedish Tax Agency.

The Swedish inspection model was created in the 1990s to support national evaluation, audit and accountability in a highly decentralised system of governance, and one with a high degree of local responsibility.

The work of inspectorates can be commissioned by the Government or initiated by the agency to be evaluated. Because work can be commissioned by the agencies themselves, the relationships between Sweden's 60 inspectorates and their respective agencies of responsibility are diverse. Some keep a traditional arm's length external evaluation approach, while others have a more integrated research function to support agency operations. Given this institutional arrangement, arm's-length relationship between the inspector and inspected are at risk of becoming blurred, strengthening operational relevance, if limiting the objective usefulness of inspectorate work for budgeting.

3.3.4. Spending review in Sweden

Despite a diverse range of performance-oriented evaluation functions, none have direct links to the budgetary process. Commissions of inquiry are typically broader in scope than most budget issues and occur relatively infrequently. NAO performance audit subjects, by virtue of its legal independence are outside the influence of the Government Offices and parliament. And inspectorate audits are generally targeted for a specific agency audience.

One approach for forging a more comprehensive overview of the effectiveness of public spending is to undertake spending reviews. Unlike many other OECD countries, Sweden does not have a tradition of spending review *per se*. This is not to say that spending review concepts are new to Swedish budgetary discourse. The annual expenditure ceilings force ministries to prioritise spending within expenditure areas. Furthermore, a 2007 special examination was influential in informing a recent set of reforms of how performance information is guided, gathered and used in Swedish national budgeting: *"Complex surveys of different links between costs and results must be carried out on an ad hoc basis and with an acceptance of a large measure of uncertainty. This applies both to the volume of resources being used by central government to achieve a particular aim or objective and what costs central government has actually had to achieve a particular aim or objective (SOU 2007:75)."* These are qualities of spending reviews in other OECD countries, such as the Netherlands, the United Kingdom and Canada.

Sweden's current government is implementing spending reviews on a trial basis 2016-18. The trial review will be led by the Ministry of Finance and will have a narrowly defined focus: Targeting two projects in the first year and planning for four or five reviews in the coming year. It will examine mainly issues that span the control of multiple ministries. Given the limited scope of review, it is unlikely that material fiscal consolidation or reprioritisation would be realised as constructed. Should the Government Offices have positive experiences from the perspective of technical capacity to undertake the trial reviews and the ability to integrate review findings into the budget process, Sweden's government might consider expanding the scope of spending review on a periodic or annualised basis.

Box 3.2. Spending Reviews

Spending reviews are a specific kind of government evaluation. Spending reviews generally have two defining purposes: To give the government improved control over the level of aggregate expenditure and to improve expenditure prioritisation.

Spending reviews involve the systematic scrutiny of baseline expenditure to identify and weigh savings options and/or complement inherent weaknesses in most budgeting systems: Reprioritisation, incentives for proposal development and the simultaneous consideration of spending. As such, spending reviews are distinct from both:

- the appraisal of proposals for new or additional spending.
- evaluation systems that are not expressly designed to generate fiscal savings or be integrated into the budget process

Since the 2008-09 global financial crisis, governments have aimed to consolidate public finances, and for many, spending reviews have been a key instrument for cutting aggregate expenditure. Prior to the global financial crisis, five OECD member countries had conducted spending reviews. By 2011, over half of OECD member countries (16) had conducted, or were planning, spending reviews. Two striking features of post-crisis spending reviews are: a broad scope and ambitious savings objectives. Examples include the UK (2010, 2013), the Netherlands (2010), Canada (2011) and Ireland (2010, 2013).

That being said, a spending review is not solely a mechanism to reduce total expenditure. The growing use of spending reviews is also based, in part, on the recognition that conventional budget preparation processes tend to be weak on prioritisation. Spending reallocation can create political resistance from the beneficiaries of the services or transfer payments being cut or from affected ministries. Consequently, political leadership remains passive in its role in expenditure reallocation. In spending reviews, the consideration and re-prioritisation of existing spending is asserted more strongly than in the conventional budget process.

Ordinary budget processes also provide stronger incentives for spending ministries to develop robust new spending proposals, with fewer incentives for options to achieve more for less money on existing programmes. Spending reviews, through central guidance and savings targets temporarily shift incentives to developing proposals to reduce, rather than increase spending.

Source: Adapted from Robinson (2014).

3.4. Summary assessment

The presentation of Sweden's performance information is solid. Information is comprehensive, presented on a government-wide basis and aligned with each of the 27 budget expenditure areas. Thoughtful recent reforms have replaced outcome indicators with input and output indicators for areas where agencies have less causal control over impacts. This has demonstrated an important shift from a more one-size-fits-all approach to performance measurement, helping to address perceived information overload. Despite these strengths, performance information is not widely used in Parliament's budget discourse. Information accessibility and relevance can be enhanced through information technology and reorienting additional analytical resources to performance analysis among the parliamentary research services.

Evaluation already exists as a management resource for Sweden's agencies. The National Audit Office conducts credible and relevant performance audits and many of the largest

agencies have external Inspectorates General conducting evaluation. That being said, evaluation is currently fragmented and has potential to better inform budget policy in the Government Offices. Inspectorates general conduct agency-specific evaluations, so these inspectorates are not well-co-ordinated and have heterogeneous operations. Gaps in central guidance lead to evaluations that sometimes neglect issues of efficiency, economy and effectiveness helpful for agency programme managers, but critical to budget deliberations. The Government Offices could play a stronger evaluation co-ordination and standards-setting role for the Inspectorates. Sweden has no mechanism to comprehensively consider most ongoing annual operating spend. The current pilot spending review is a positive development. It should be scaled-up and adequately resourced with staff to examine a broader base of spending than a handful of programmes.

4. Parliamentary oversight and institutional supports for budgeting

4.1. The role of parliament in budgeting

Section 2 provides an overview of how the budget process works in Sweden, including the key stages of the process where the parliament plays a role. In particular, the Riksdag has a clear role in discussing the expenditure ceiling, and the details of the spending budgeted within that ceiling. This section examines the various parliamentary aspects of budgeting in more detail.

Box 4.1. The Riksdag

Sweden has a unicameral parliament (the Riksdag) elected by a system of proportional representation. Sweden's parliament has historically had a relatively large number of political parties – its 349 current members represent eight parties. The large number of parties makes it difficult to form stable majorities, so governments generally seek the support of opposition members of Parliament in order to approve the budget. However, as a consequence of the voting procedure, a majority vote is not required to approve the budget proposal.

The **Spring Fiscal Policy Bill** provides for parliamentary debate on fiscal policy, in general terms. As the Bill does not generally deal with detailed budgetary matters, in practice it serves to introduce greater transparency to the budget process to the benefit of the Riksdag and the public in general. A functional benefit of the Spring Bill for parliament is providing a channel for parliamentary engagement in matters of fiscal policy prior to the drafting of the detailed budget.

In autumn, the **Budget Bill** containing the Government's detailed proposals for the coming year is the focal point of the Riksdag's annual budget dialogue. It aligns with, but provides greater specificity to, the general guidance set out in the Spring Fiscal Policy Bill.

The Budget Bill is the legal vehicle whereby the Riksdag decides the ceiling for central government expenditure for the third year ahead. The expenditure ceiling for the current budget year was thus decided three years in advance. Within the aggregate expenditure ceiling, the Government proposes in the Budget Bill an allocation of expenditures among 27 Expenditure Areas in the second and third budget years ahead. These Expenditure Area estimates, or indicative budget frames, are approved by the Riksdag and function as a guideline for medium-term policy planning.

Box 4.2. Parliament's budget timetable**15 April**

Government presents Spring Fiscal Policy Bill to the Riksdag.

Early June

Parliament approves Fiscal Policy Bill.

20 September

Government presents Budget Bill to Parliament. Expenditures are divided into 27 expenditure areas which are in turn divided into about 500 individual appropriations.

End November

Parliament approves in one vote the total expenditures for each of the 27 expenditure areas.

December

Parliament approves individual appropriations within each of the 27 expenditure areas with one vote for each expenditure area.

1 January

Start of fiscal year.

The Government also presents in the Budget Bill an estimate of all of the budget's approximately 500 appropriations for the second and third budget years ahead.

Finally, estimates of new fiscal policy measures included in the forecasts are presented separately in the Budget Bill. On the expenditure side of the budget, an account is presented in the Budget Bill for each expenditure limit, as are appropriation tables showing how the medium-term trend for appropriations is dependent on approved and proposed policies, changed macroeconomic conditions and, for rule-governed transfer systems, trends in changes in volume.

Box 4.3. The recent evolution of parliament's budget process

Sweden has evolved its budget process from the model introduced in the 1990s reforms. Under the prior model, a greater level of specificity was presented in the Spring Fiscal Policy Bill. It included not only forecasts of the total level of expenditure for the coming three years, as still exists, but also indicative funding levels for 27 expenditure areas which the Parliament approved as a guideline for the government's work on the budget. Approval votes on the total expenditures for each of the expenditure areas were taken in the autumn Budget bill.

In 2000, a Parliamentary Review Commission recommended that the process should be streamlined to avoid requiring budgetary decisions twice a year. These recommendations were adopted. The Spring Fiscal Policy Bill now no longer fixes expenditure ceilings and indicative frames for the expenditure areas. Only the budgetary guidelines for the Government's work on the budget are voted upon in a single spring vote. The government then uses the autumn Budget Bill to propose an aggregate expenditure ceiling for the third coming year and expenditure frames for the 27 expenditure areas for the budget year and the following next two years (see also Wehner, 2007).

Parliamentary discussion on the allocation of funding within each of the 27 expenditure areas of the Budget Bill is mainly the responsibility of Parliament's sectoral committees.

Work is shared among the Finance committee and the various sectoral committees. The Finance Committee is responsible for the overall budget proposal and for recommending to Parliament the level of aggregate expenditures and the division of aggregate expenditures into each of the 27 expenditure areas. The sectoral committees are responsible for allocating roughly 500 individual appropriations within their respective expenditure areas.

The budget proposal is referred to the Finance Committee to resolve the expenditure ceiling and the expenditure limit for each of the 27 Expenditure Areas. The Finance Committee also reviews the economic assumptions of the budget and the revenue side of the budget, including tax proposals, at this time.

The amounts for each Expenditure Area specified in the Budget Bill are taken as a starting point for discussions. The Finance Committee may increase funding for one Area by lowering funding in another. In doing so, the committee consults sectoral committees on the level of funding for their relevant Areas. Thus, the focus of the debate of the Finance Committee is typically centred on the allocation of expenditure *among* the 27 Expenditure Areas, rather than *within* each area.

The Riksdag's sectoral committees are further responsible for reviewing the individual agency-level appropriations, after which the sectoral committees present their budget proposals to parliament as a whole. The sectoral committees are permitted to change the composition of appropriations within their relevant Expenditure Area but must remain within the agreed total for their Area. If a proposal does not have majority backing in the committee, or exceeds the Expenditure Area limit set by parliament, the proposal will not be reported out of committee.

Box 4.4. The Riksdag's committee structure

There are 15 sector committees in the Riksdag, each with its own area of policy and expenditure area(s) of responsibility. For example, the Committee on Justice is responsible for the courts, the public prosecution service, the police service, the correctional care system among other things. It is responsible for budgetary matters concerning appropriations falling within one expenditure area (4 – Justice).

Each committee has one chair and one deputy chair that are chosen by the committee. If a member from one of the government parties heads a committee, the deputy chair will normally be a member of one of the opposition parties. If the chair comes from the opposition, the deputy chair will instead be a member of one of the government parties.

Each committee has its own secretariat, headed by a committee secretary and staffed by between five and ten officials who assist the members in drafting their reports with proposals for decisions. All committee secretariat officials are non-political appointees.

Each sectoral committee formally reports to the Committee on Finance by the end of October. The Finance Committee then reviews these reports and other relevant information to prepare recommendations on the division of expenditure within the 27 Expenditure

Areas. In mid-November, the Finance Committee presents its recommendations to Parliament on, the expenditure ceiling, tax proposals, estimates of revenues and the division of aggregate expenditures into each of the 27 Expenditure Areas. Once all 27 recommendations are made, the Parliament discusses the budget proposal and decides on the appropriations within each Expenditure Area. The budget for the next year is finalised before the Christmas recess and in time for the government to decide on the annual appropriation letters to the agencies.

Parliamentary amendments to each of the 27 Expenditure Areas are possible, but are historically rare, largely due to the voting procedure. The allocations of budget within Expenditure Areas are considered as a package, and settled in a single vote rather than individually. Thus, the entirety of budget allocations within spending areas must be taken as a whole, as it is not possible to form temporary majorities on certain budget items. As a result of this voting procedure, committee amendments to the government proposal historically have little chance of gaining majority approval. The ‘all-or-nothing’ amendment design impedes the likelihood of opposition budgets, as it makes it more difficult for diverse opposition party goals to be synthesised into a single budget counterproposal to the government.

Consequently, parliamentary committees rarely propose alternative allocations and amendments to the government proposal historically have had little chance of gaining majority approval. The Government is highly influential in setting appropriation amounts for agencies. Detailed proposals of appropriations within expenditure areas put forward by the Government are adopted without amendment.

In parliamentary practice, the budget bill is taken as all or nothing. Indeed, this was the case in 2014, when the Government budget proposal was voted down in full, and an opposition budget was temporarily enacted until a revised Government budget bill gained majority support in parliament. However, despite recent events, budgetary amendments in parliament remain anomalous since the mid-1990s budget process reforms. As a practical matter, budget allocations are often negotiated with one or more political parties outside the Government to ensure majority support before being tabled.

Box 4.5. Supplementary budgets

Twice per year – in connection with the Spring Fiscal Policy Bill in April and the Budget Bill in September – the Government can revise the central government budget by proposing an increase of a budget item for unanticipated needs. Increased expenditure during the year is not allowed to be financed by reduced appropriations next year, and revised budget increases are usually offset by reducing budgets for other agencies by a corresponding amount. In Sweden, supplementary budgets are relatively small and are typically used for technical adjustments rather than new policy.

The reforms of the parliamentary budget process in Sweden have delivered the intended effect from the mid-1990s reforms: a medium-term and top-down orientation for the budget. Sweden requires a parliamentary majority on large composite fiscal matters to disrupt for even small budgetary amendments.

The constrained functional amendment power of Sweden’s parliament means that the government can implement its budget objectives in-line with its desired medium-term

path for expenditure (at the surplus target or otherwise). That being said, the limitations on parliamentary amendment capabilities shifts policy committees' focus away from the scrutiny of agencies' operating plans toward a macro-fiscal debate on allocations between major policy areas of central government spending. Sectoral committees have minimal influence on agency budget allocations. The performance and results of agencies are not emphasised in budget debate – agency annual reports, tabled in the spring, are rarely discussed in detail. In effect, this arrangement has diluted parliament's effective role in the scrutiny of detailed spending plans and execution, while still leaving parliament with little capacity for affecting overall budgetary envelope.

Sweden's parliament and its committees have a number of analytical supports in the budget process, yet many remain underutilised in practice. The parliament is provided with a wealth of performance, audit and accruals budgeting information to assist in budget planning and scrutiny. The information is timely and well-integrated into the institutional processes. That being said, budget approvals at committee are taken in relatively short order. Although the level of funding for each Expenditure Area is only agreed at the end of November, the sectoral committees traditionally have begun the review of their individual appropriations by mid-November.

Furthermore, supplemental information designed to support in-depth analysis of budget proposals – performance, audit and accruals information – is often not relevant to the key issues at hand (i.e. the division of the budget ceiling among Expenditure Areas) or too voluminous and inaccessible in practical policy terms.

At present, parliamentary committees receive adequate analytical support from the parliamentary research service. Parliamentarians submitting evidence as part of this review suggest that committees receive timely, high-quality policy analysis and fiscal costings of proposed budget choices. However, with additional analytical resources, it may be possible to better synthesise and integrate accruals, performance and audit information produced and designed for parliament, to better inform and sharpen the quality of parliamentary committee budget discourse.

4.2. The National Audit Office

Sweden's National Audit Office (NAO), the *Riksrevisionen*, is the central public audit institution. It has two primary areas of responsibility: Financial audit and performance audit.⁴

In an annual *financial audit*, the NAO audits and evaluates whether the financial statements of all central government authorities are credible and correct, if the accounts are in accordance with the Budget Act and whether the leadership of the authorities being audited are following current ordinances, rules and regulations.⁵ While described here as financial audit, these audits are not purely 'financial' in nature. In addition to providing an assessment on whether the accounts are in accordance with the Budget Act, the NAO attests that agency annual reports contain factually correct qualitative information on performance.⁶ That is, where agencies report information on performance outputs and outcomes, the NAO verifies that there is evidence in place to support the claim. The NAO also audits the government's annual report, the State Annual Report. The scope of the annual financial audit is regulated in the Act on the Audit of Public Operations (SFS 2002:1022).

In *performance audits*, the NAO audits the government authorities' efficiency. These audits examine whether the audited entity is achieving its goals and the appropriateness of the organisation, operations, process, or function for the purpose. The goal of the audit is to make sure that the state, with regards to the interests of the general public, is getting good results for its efforts. Areas for performance audit are selected based on a set of indicators, risk and materiality evaluations. The NAO produces between 20-30 performance audit reports per year. The subjects are selected by the Auditors General, independent from both the government and parliament.

The NAO has recently begun to conduct analysis of the government's annual Spring Fiscal Policy Bill. Each year, the NAO has explored a different theme in fiscal policy, including the government's application of its own fiscal policy framework and assessments of the quality of measurement of fiscal targets.

The law requires that the most important observations made in performance and financial audits should be gathered in an annual report.⁷ In the annual report, audit findings are summarised in thematic chapters. The aim of the report is to draw general conclusions and provide a broader perspective on the NAO's audit findings than can be done in individual audits. The annual report is submitted to the parliament.

The NAO is an independent authority under the control of parliament. It is established as part of Sweden's constitution, in the Instrument of Government, and its activities are further detailed in the Riksdag Act and other legislation. The parliament determines the NAO's annual resources, and is responsible for appointing Auditors General.

Box 4.6. The creation of the Riksrevisionen

In 2000, the Riksdag unanimously decided to create a new Swedish National Audit Office, the Riksrevisionen. This reform transferred all responsibility for the state audit to an independent body under parliament and replaced two pre-existing institutions: the Riksrevisionsverket, a government audit agency, and the Riksdag's Parliamentary Auditors. In 2003, the Swedish Constitution (the Instrument of Government) was amended enabling the Riksrevisionen to begin its work.

The NAO's audit mandate covers nearly all state activities. However, as a central government institution, the NAO has no authority to audit local governments – a provider of large areas of public spending, such as education and health services.⁸

The NAO's operations are overseen by a Board, which is appointed by the Parliament. The Board is comprised of current or past Members of Parliament. The role of the Board, as stipulated in the constitution, is to consider whether audit reports are to be tabled in Parliament. The Board is free to consider if and what political decisions need to be made in view of the NAO's conclusions and recommendations in the audit reports. However, the Board does not have the right to object to the conclusions and recommendations in the reports of the NAO. The Board also decides on the budget proposal for the NAO and determines the financial statement and reports from the Auditors General on results of the NAO.

The NAO has three Auditors General. Each Auditor General is in equal standing and is jointly responsible for the strategic direction and management of the organisation. The Auditors General together decide on how the audit areas shall be divided between them,

but each Auditor General independently decides what audits that shall be carried out, how this shall be done and what conclusions that are to be drawn within his/hers field of responsibility. This structure is designed to ensure a diversity of views at the top of the organisation to feed into the approach to delivering work.

The independence of all three Auditors General is protected by the constitution. Each Auditor General is free to decide on the audit approach and is able to report without restriction. The choice of focus is based on two criteria: risk and materiality.⁹ Appointments are made by the Parliament for a term of seven years. Re-appointments are prohibited.

The Parliament further appoints one Auditor General as responsible for the administrative management of the organisation. This Auditor General is in charge of decisions concerning organisational structure and delegation, proposed application for the yearly grant and decisions regarding the Annual Report of the Swedish NAO.

The joint leadership structure is atypical for a Supreme Audit Institution (SAI). Most other Supreme Audit Institutions have one appointed Auditor General, responsible to Parliament for the scope of the audits and the conclusions. The Board structure, designed to provide a political sensibility and awareness to an organisation that is otherwise insulated from such concerns, without intruding upon independence, is an interesting feature, and is rare among SAIs. The work of the NAO itself is highly-regarded among international peer organisations and is considered to be of high quality and relevance both by the Riksdag and within government.¹⁰

The NAO has a staff of over 340 employees. Approximately 130 employees work in financial audit and 115 in performance audit. The remainder are either in the international division or supportive staff, e.g. administrative and clerical staff. The NAO staff have backgrounds in accounting, business, economics, social science and public administration. The NAO has access to all the information it requires for its audits. Most state information in Sweden is available to the public, under the citizens' right to access of information.

The NAO identifies the areas of overall focus for Performance Audit in its strategy and annual audit plan. These areas are used as the framework upon which the NAO selects individual audit topics. This approach is in place to ensure that the NAO produces audits relevant to Sweden's parliament and Government operations. The NAO enjoys a great deal of independence of operations, a good practice and positive feature of the Swedish budgeting system. However, in the context of full operational independence, parliament has limited functional influence on topics of exploration for performance audit, potentially limiting the use of performance audits in budgetary debate. Legal provisions could be considered to provide parliamentarians with greater access to NAO research capacity, by providing that the NAO conduct enquiries requested by key parliamentary committees. As an example, in France, the *loi organique relative aux lois de finances* (LOLF) provides that the French supreme audit institution, the *Cour des Comptes*, undertake requests of this type. The law ensures that members of parliament can access policy-relevant SAI research. Work generated in this stream has served as a basis for amendments to laws and proposed bills. Alternatively, it may be considered useful to provide the NAO's Board with a function of suggesting politically relevant and impactful topics for performance evaluation. Whichever approach is pursued, it will be important for the NAO to retain close linkages to policy-relevant issues, while safeguarding its operational independence.

Box 4.7. **Timely financial audit at the Riksrevisionen**

As part of its core financial audit function, the NAO audits both i) the annual reports of agencies and ii) the central government annual report. Both audits are regularly completed and presented to Parliament within one month of the publication of each initial government report. By regulation (ordinance), the annual reports of the agencies are submitted to the Government no later than 22 February, and the NAO returns its audits no later than 22 March. Likewise, the central government annual report is submitted to the Parliament no later than 15 April, and the NAO returns its corresponding audit no later than 15 May.

Consistent with OECD recommended practice 10(d), NAO audit reports are published in a manner that is timely and relevant for the budgetary cycle.

4.3. **Independent Fiscal Institutions (IFIs)**

As outlined in Section 2, Sweden does not have a system of automatic sanctions for departures from its fiscal rules. Rather, non-compliance is enforced through potential political consequences.

To facilitate timely and evidence-based debate on issues of non-compliance, a supervision framework exists in Sweden, comprised mainly of arms-length Government agencies. Two agencies are central to fiscal policy monitoring at the national level:

- Swedish Fiscal Policy Council (SFPC)
- National Institute of Economic Research (NIER)

The **Swedish Fiscal Policy Council** (SFPC) was established by Ordinance in 2007. Its creation was not part of a broader set of budget reforms, although it was meant to complement and reinforce the institutional arrangements established in the 1990s (Molander, 1999).

The SFPC's remit has a macro fiscal monitoring focus, centred on the supervision of the government's progress toward its high-level fiscal objectives. The SFPC's primary responsibilities are to:

- Assess whether fiscal policy in the Spring Fiscal Policy Bill and the Budget Bill is consistent with:
 - long-term sustainable public finances
 - the budgetary targets, particularly the surplus target and the expenditure ceiling and to assess
 - the fiscal policy stance in relation to cyclical developments in the economy,
 - whether fiscal policy is in line with healthy long-term sustainable growth and leads to long-term sustainable high employment,
 - the clarity of the budget bills, particularly with respect to the stated basis of economic policy and the reasons for proposed measures, and
 - the effects of fiscal policy on the distribution of welfare in the short and the long run.

The SFPC may also review and assess the quality of the forecasts presented and the models on which the forecasts are based.¹¹

The SFPC has the responsibility of working to stimulate more public debate on economic policy. Consequently, unlike other IFIs, the SFPC provides not only positive analysis, but

normative commentary on fiscal policy affairs. A final function that is relatively unique in the IFI domain is the SFPC's role in examining the transparency of the government's policy documents and the grounds for policy proposals. In this capacity, the SFPC acts as a kind of "debate watchdog" vis-à-vis the government (Calmfors, 2011).

Unlike independent fiscal institutions in other countries, the SFPC has no formal forecasting functions, although it has the option to evaluate the quality of forecasts and the underlying models. Rather the role of the SFPC complements existing institutions, like the NIER and the National Financial Management Authority, which each perform public forecasting functions independent from the Ministry of Finance.

Also unlike independent fiscal institutions in some other countries, the SFPC does not have a mandate to provide policy costings (*ex ante* or *ex post*). Rather, this is a responsibility of the Riksdag's parliamentary research units.

In these respects, the role of the SFPC is "locally-owned" and structured to complement Sweden's legal framework, political system and traditions in formulating fiscal policy.

Foremost among the Swedish traditions among public institutions is the operational independence of agencies. The SFPC is a government agency that is accountable to the Ministry of Finance. It has no formal relationship with the Riksdag (the Swedish parliament) or any other institution involved in the surveillance of public policy, such as the National Audit Office or the central bank.

As an agency under the Ministry of Finance, the SFPC budget is set as part of the regular annual budget process. The level of funding has been subject to controversy. In 2010, the SFPC wrote an open letter to the government to highlight a perceived lack of funding. In 2012, the SFPC's budget was increased and is not a current issue of discord between the SFPC and Sweden's government. However, the public discussion over resource requirements highlights a potential source of influence over the functional independence of the SFPC.

Further, the government is responsible for the appointment of all of SFPC members, along with the administrative head of the SFPC secretariat.¹² To determine Council membership, the SFPC publicly submits to the government recommendations for prospective candidates. The government has followed the recommendations of the Council, to date, but is not required to follow the recommendations.

The SFPC is comprised of six members. Appointments are on a part-time basis, as is compensation. All council members retain other full-time employment, primarily in academia. Compensation is roughly equivalent to board members of the Swedish Social Insurance Agency, though council compensation was a public point of contention between the council and the government in 2010, as the SFPC indicated that compensation is not commensurate to the time required.

The SFPC is supported by a small secretariat of five full-time staff, which is hired by the executive head of the secretariat (himself, an appointee). Operationally, this small secretariat means that Council members themselves engage in completing some of the Council's work, in addition to full-time responsibilities in academia. The financial and human resourcing and resulting work balance has not inhibited the SFPC from delivering on its remit to date.

As a final notable operating consideration, the SFPC has no formalised mechanisms to obtain information, the strongest of which is typically a provision in legislation guaranteeing access to government data and information. Roughly half of OECD IFIs have access to information set out in law. Another form of access common to IFIs is a memorandum of

understanding. The SFPC's access to information is guaranteed neither in legislation nor in a memorandum of understanding. However, most state information in Sweden is available to the public, under citizens' constitutional right to access of information. As such, the SFPC has had no difficulty obtaining information to fulfil its remit.

Under Swedish law, a minister cannot directly instruct an agency what to do in a specific situation. And so functionally, the SFPC has enjoyed a relationship with parliament consistent with OECD IFI peers: it publishes reports in the public domain, the key reports are sent to the legislature and the leadership of the council participates in parliamentary hearings. Apart from disagreements that have been resolved over resources, the government has not exerted influence over appointments or the SFPC's operations.

That being said, a more satisfactory arrangement – in terms of underlining operational independence and clarifying reporting roles – may be to establish the SFPC under the Riksdag, as is the case for Sweden's National Audit Office. The financial and senior-level human resources provided to the SFPC could be determined by the Finance Committee of the Parliament, rather than by the Minister of Finance.

While agencies, such as the SFPC, enjoy administrative independence in Swedish tradition, the example of the independent National Audit Office demonstrates that greater independence from the executive facilitates important legal and financial separation for an oversight body, still in keeping with the Swedish agency tradition.

The National Institute of Economic Research (NIER) performs analyses and forecasts of the Swedish and international economy and conducts related economic research. The NIER is a government agency operating under the Ministry of Finance. Like other Swedish government agencies, and the SFPC, the NIER has an independent status and is responsible for the analyses and forecasts that it publishes. Forecasts and research is to be conducted independent from the Minister and Ministry of Finance, and without political considerations. Operationally, the NIER enjoys a decades-long tradition of operational independence from government influence. Its forecasts and analyses are perceived by the range of stakeholders to be objective, high-quality and useful in developing fiscal policy.

A core budget function of the NIER is the responsibility to compare the Government's forecasts and forecast errors with those of other forecasters. The NIER undertakes fiscal forecasting in a relatively rich environment. Not only does the NIER produce an alternative projection to the government's official forecast, but the Financial Management Authority, another government agency, also publishes a medium-term projection using more detailed budget projections than the macro-oriented work of the NIER.

Box 4.8. National Financial Management Authority

The Swedish National Financial Management Authority (ESV) is a central administrative agency under the Ministry of Finance. Its role is to develop efficient financial management for central government agencies, and analyses and makes forecasts of central government finances. It does not have an oversight function of government fiscal policy. However, the ESV analyses the monthly outcome of budget execution to make detailed budget forecasts of government revenues and expenses independent of the Government Offices. These forecasts add to the assortment of independent views on fiscal projections and enhance the quality of budgetary understanding.

The NIER fulfils other functions in Sweden's economic research dialogue. In addition to being used as an independent basis for economic policy in Sweden, NIER forecasts are also used by government agencies, companies and organisations for planning purposes. The Swedish Government Offices, government agencies and organisations representing various interests also commission NIER research (Specialstudier), primarily in the areas of macroeconomics and environmental economics.

In this respect, the NIER completes an independent costings function in select policy domains.

The Swedish government and/or the Parliament may consider broadening the costing services of the NIER. Currently, the institute essentially works for the government as a commissioned research arm in the fields of macroeconomics and environmental economics. These services are widely regarded as credible and influential. In countries where IFIs undertake costing tasks (Australia, Canada, the Netherlands, the United States), costing reports are generally provided free of charge to parliamentarians or parliamentary committees.

That being said, policy costing is a relatively expensive function. Traditionally, the Ministry of Finance is responsible for policy costing and there are few second opinions provided to parliament or the government. Secondly, if costing proposals are completed by different institutions, there is a risk that political debate is undertaken using two different sets of numbers, creating opacity in spite of the intent of greater transparency.

An alternative to the NIER taking on costing roles in domains outside of macroeconomics and environmental economics would limit costs and alleviate the risk of separate sets of cost estimates used in parliament: the remit of the SFPC or NAO could be expanded to cover reasonableness assessments of costings completed by the government and put before parliament. This function would mirror the existing fiscal assessment function of the SFPC – where the council would be responsible for providing opinions on the quality of forecasts and estimates, without an obligation to conduct a full-scale second estimate. A downside of this approach is one that the SFPC currently contends with: that the detailed understanding required to develop an estimate or forecast can provide insights that are difficult to re-create without an underlying model.

4.4. Summary assessment

Sweden's parliamentary budget discourse centres on the hallmark of Sweden's system of financial management: fiscal discipline through a medium-term, top-down orientation. Policy specific budget debate is well delegated to sector committees, which possess adequate expertise and analytical support to consider the top-down budget approvals. However, the parliament and its committees have relatively weak functional amendment power on reallocations between agency or expenditure area priorities. The expenditure area budget proposal made by government unfolds rapidly in the autumn, leaving little time for meaningful amendment discussion. This rigidity – partly by design and partly by custom – acceptably solidifies fiscal discipline at the expense of responsiveness to emerging policy issues.

Sweden's strong medium-term and a top-down orientation are operationalised by a surplus target – broadly accepted in principle, but becoming increasingly contentious in practice. Consecutive annual SFPC assessments of compliance with the surplus target have been refuted by the Government on account of measurement discrepancies. It results in

opaque and distracted fiscal policy discourse, focused on interpretations of measurement rather than policy priorities. The SFPC should be granted stronger access to information to reconcile such discrepancies publicly and as authoritatively as possible. General legal and operational independence for the SFPC, as is the case for the NAO, would be further aligned with OECD recommended practice in independent fiscal analysis.

5. Budgeting and financial reporting practices

5.1. Budgeting and financial reporting standards and practices

In Sweden, the coverage and accounting basis of public financial reports have evolved significantly over time, in response to growing demand for transparency and accountability. In the 1990s, in particular, two major reforms were implemented in the area of financial reporting: First, the adoption of accrual accounting at agencies' level, following the move to results-based management that created the need for a better measurement of their costs; and, second, the publication of consolidated financial statements for the Central Government as a whole (the *Annual Report*). These reforms have placed Sweden among the most advanced OECD countries in the financial reporting area. Changes to budgeting and accounting practices have been limited since then, the attention of the government being mostly focused on improving and streamlining processes and improving existing reports.

5.1.1. State annual budget

The State annual budget is presented according to two key principles defined in the Budget law: i) completeness (i.e., all expenditure), income, and payments that affect the government borrowing requirement are reported under the budget; and ii) measurement on a gross basis (i.e., expenditure) cannot be presented net of revenue.

The Budget Bill covers the Parliament, ministries, and some 250 government agencies. The pension system is not included in the budget with the exception of the old-age pensions paid out by the Swedish Social Insurance Agencies (see Box 5.1). Local government and SOEs are not covered in the budget, but the grants they receive are individually disclosed and appropriated in the budget. In addition, where the *Riksdag* has decided that fees, user charges, or grants should finance a specific operation other than via an appropriation, the related income and expenditure are considered as 'off budget'.¹³ A number of funds (including the Nuclear Waste Fund, Stability Fund, and Deposit Guarantee Fund) are managed on a net basis in the budget, due to their specific funding and irregular spending. These funds' capital amounted to around SEK 140 billion in 2014.

The question of, which basis to use in presenting budget information has been the subject of attention and on-going reform in Sweden. Indeed, in the 1990s, agencies adopted the accrual approach for their financial statements, while the cash basis was still used for budget forecasts and budgetary reporting. Some accrual elements have been introduced in the government's budget in an effort to make the budget and financial accounts converge: Taxes, fees, other income, and administrative expenditure the year which the revenue or expense belongs to (independently from the payment). However, other expenditure, such as transfers and grants, infrastructure investments and revenue from EU funds are still budgeted on a cash basis. One of the reasons for changing to accruals for taxes was to clarify and improve the analysis of the taxes and changes in the tax system. Another reason for changing to accruals for administrative expenditure was to simplify for

Box 5.1. Budgeting and Accounting treatment of public pension schemes

The public pension system for private sector employees consists of three elements. The first and major component is the income-based pension. It is financed on a pay-as-you-go basis. It is autonomous from the national budget, as income-based pension contributions are transferred to the system's buffer funds: The First, Second, Third and Fourth AP (National Pension) Funds. Each fund receives a quarter of the contributions and is responsible for a quarter of pension payments. Automatic balancing means the pension system regulates its own finances and avoids the government having to intervene by raising contributions or borrow money to fund pensions. The second component is the premium pension system administered by the Swedish Pension Agency, which is also autonomous from the national budget. Of the pensionable income 2.5% is paid to the funded pension scheme, on a compulsory basis. The Swedish Pension Agency is responsible for the operation of the premium pension system. It collects contributions and invests them in the individually chosen investment option (either in individual investment accounts or the Premium Savings Fund, which is managed by the Seventh National Swedish Pension Fund – AP7). Third, in addition to the income-based and premium pension, the guaranteed pension, a means-tested benefit, provides a minimum pension for persons older than 65 with low or no income and at least 40 years of residency in Sweden. It is the only pension scheme financed by the government's budget. In the Annual Report, liabilities and related assets from National Pension Funds and Premium Pension Funds are not reported, nor disclosed as contingent liabilities. These entities are considered as managed autonomously from the State, with their asset management activities being regulated by the Swedish National Pension Insurance Act.

The pension plan for civil servants is a defined benefit plan, which covers around 700 000 employees. Annual pension payments are included in the budget, and the accumulated financial obligations towards civil servants recorded in the State balance sheet. However, the social partners agreed in November 2015 on defined contribution pensions for state employees born in 1988 or later, with effect from 1 January 2016.

The pension plans for employees of Swedish municipalities are mainly a defined contribution plan and covers around one million employees. These pension plans are recorded in the local entities budget and financial statements, according to their functioning rules and applicable accounting standards.

agencies, not having to book the same expenditure in two different ways. The assumption was that for administrative expenditure, such as salary and rent, there is a close connection between cash and accrual, meaning that the change wouldn't affect the budget in any significant way.

Despite the introduction of accrual elements in the budget, the authorities do not consider that they have implemented accrual budgeting. Indeed, the budget and budget reports do not include a balance sheet, a significant part of the expenditure is recorded on a cash basis, and the budget's bottom line is corrected from accrual elements and presented on a full cash basis. The reasons cited for not adopting the accrual basis for budgeting include the lack of political interest and mixed results achieved in countries that have engaged in such reforms. Despite the budget being decided in cash terms (with the exceptions given above), the authorities consider that the budget and accounting systems are integrated.

5.1.2. Central Government budgetary and financial reporting

Transparency on the State budget execution and central government finances is high in Sweden: The Swedish National Financial Management Agency (ESV) establishes and publishes regular reports, under different reporting basis and with different coverage, which are complemented by General Government statistics established by Statistics Sweden (see Table 5.1):

- Budget execution reports are presented on a similar coverage and basis as the budget, and analysed monthly by the ESV. They are sent to the MoF and line ministries, and discussed in a joint meeting for spending monitoring purpose. These reports are also published on the ESV website.
- In the National accounts, revenue and expenditure are presented by type and purpose (COFOG). An important variable of the National accounts is government net lending (or borrowing). This information is reported to Statistics Sweden, and also use for fulfilling the obligations towards international institutions (such as the European Union's under Excessive Deficit Procedure).
- The presentation and content of the *Annual Report* are discussed in more detail below.

Table 5.1. **Financial reports established by the ESV**

Type	Coverage	Accounting basis and standards	Frequency
Budget execution reports	State Budget	Modified-Cash, no standards	Monthly
Statistics	Central government	Accrual, <i>European System of Accounts 1995</i>	Quarterly
Statistics	General Government	Accrual, <i>European System of Accounts 1995</i>	Yearly
Annual Report	Central government	Accrual, Budget Act and regulations?	Yearly

* The Budget Act states the fundamental accounting principles and which financial statements and other descriptive parts should be included in the *Annual Report*.

Despite their different coverage and accounting basis, these reports are established based on the same data, delivered by agencies and Government authorities, and therefore consistent and reconcilable.

The completeness, reliability, and timeliness of agencies' financial reporting are key to the overall accuracy of the reports published by the ESV. Consequently, while agencies have their own accounting policies and charts of accounts, their monthly and quarterly reporting follows compulsory procedures and reporting formats, defined by the ESV. In particular, for establishing the *Annual Report*, agencies' individual financial statements are consolidated by the ESV, under dedicated IT systems¹⁴ and according to a clear timetable (see Table 5.2), which defines the financial reporting requirement for agencies, including procedures for reconciling intra-governmental transactions (receivables/payables and revenue/expenditure). Controls and adjustments on the consolidated financial statements are performed by the dedicated department of the ESV.

The requirement to establish an *Annual Report* is stipulated in the law since 1996. The *Annual Report* is composed of a statement of financial position, statement of financial performance, cash flow statement, and notes and disclosures, as well as budget outturn. It also includes a bridge table between the statement of financial performance and annual budget outturn and detailed information on the national debt and Government's guarantees. Sweden is one of the few countries that have implemented full accrual accounting in their financial statements. In particular, taxes are accrued using macro-economic models, fixed assets are

Table 5.2. **Timetable for preparing the Central Government Annual Report**

Date	Activity	Actor
Dec. to January	Preparation of annual financial statements	Agencies
February 22	Reporting package to ESV	Agencies
February/March	Consolidation	ESV
March 15	Draft Annual Report sent to MoF	ESV
March 22	Audit Reports on Agencies Financial Statements	NAO
March to May	Finalization and Audit	MoF and NAO
April 15	Presentation of Annual Report to Parliament	MoF
May 15	Presentation of Audit Report to Parliament	NAO

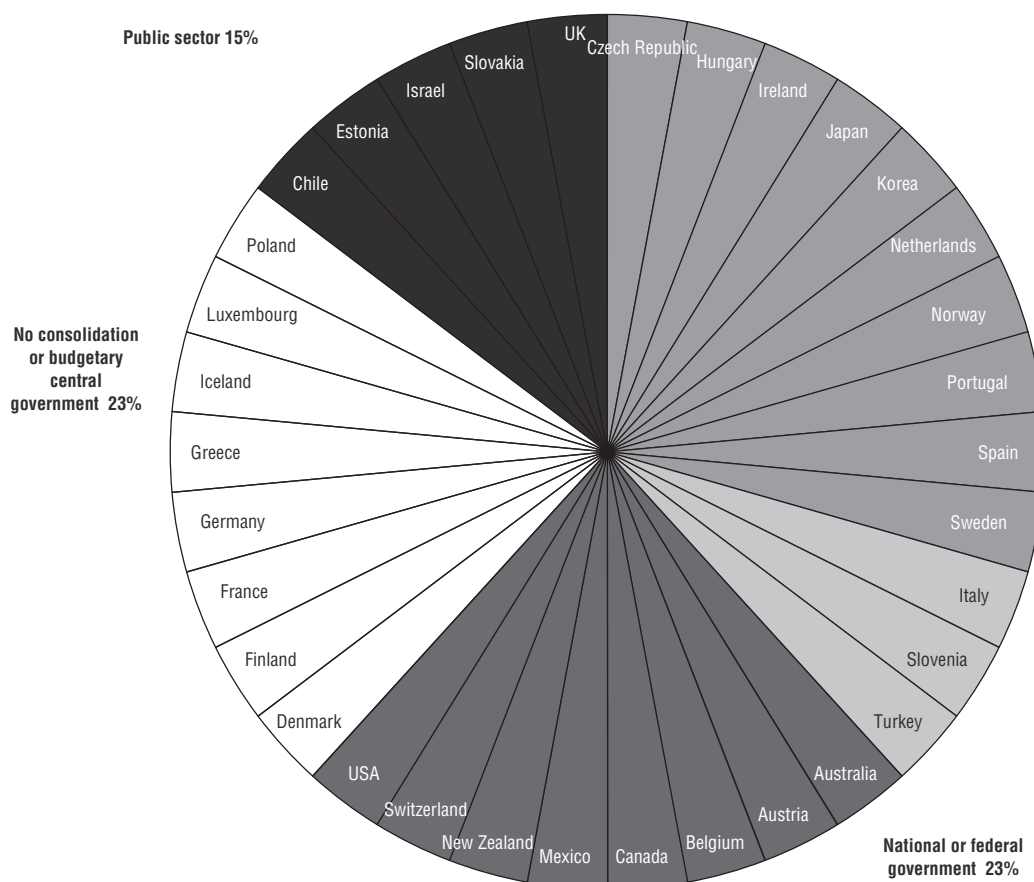
fully evaluated, and provisions are recorded for future expected losses on guarantees granted by the government. However, social benefits are recorded on a cash basis and only the annual cash outflows appear in the operating statement, cash flows statement, and budget outturn. Natural resources¹⁵ and heritage assets are only partly reported in the balance sheet.

In term of coverage, except for the budget outturns, fiscal reports focus on central government – that is entities on which the Government has a legal authority. Pension funds (see Box 5.1), municipalities and councils (i.e., local government), and SOEs are not consolidated, because they have some level of autonomy or independence despite receiving of Government transfers.¹⁶ The ESV considers that realising a consolidation at the general government and public sector levels was not the aim of the 1990s reform, but rather a possibility provided by the reform. The general government net lending for the past year, including the net lending of the pension system and the local government sector, is however reported in the Annual report. In addition, as the national accounts already provide a view of the general government and public sector's finances, the authorities do not consider that there is a need for realising a whole of government consolidation in the Annual Report, which would convey significant implementation costs. Consequently, compared to other advanced countries (see Figure 5.1), the Government's financial statements have a somehow limited coverage.

Despite the *Annual Report* being presented to the Parliament in April of each year, the parliamentary Finance committee debates on the financial statements are limited, if any. The Budget Bill remains the key document in the budget process, and is used also as the main accountability document for central government activities. In compliance with the 2011 Budget Act, it includes an analysis of differences between budgeted amounts and estimated outcomes for the current budget year, in addition to the budgeted amounts for the following year, as well as information coming from the *Annual Report*. This ensures that appropriate explanations and rationale are accompanying the budget proposal for the next year. In addition, interviews with stakeholders highlighted that users of the Annual Report find it difficult to understand, compared to the budget outturns. Overall, there might be the need, in Sweden like in many other OECD countries, to simplify and align the information contained in the various financial reports. The United Kingdom, for example, has engaged in a project for simplifying and streamlining the departmental accounts.

In Sweden, as in other countries where accrual accounting has been implemented over the last years, questions remain about the usefulness of the accrual based financial statements to users. To date, accrual accounting and the Annual Report are little used for managerial planning, budgetary decision making, or even control purpose at the State level. However, efforts are being made to increase the usefulness of accrual financial data.

Figure 5.1. **OECD Countries: Overview of Public Finances in Annual Financial Report**



Note: Countries whose financial statements cover the ministries, public agencies, social security funds, sub-national government, and state owned enterprises (SOEs) are categorised in “public sector”; those do not include the SOEs are categorised in “general government”; those that do not include the sub-national government are categorised in “national government”; those that do not include the SOEs and sub-national government are categorised in “central government”; those that cover only the budgetary entities are categorised in “no consolidation or budgetary central government”.
Source: OECD Accruals Survey (2016).

For example, as described in Section 6.2.3 below, the Government publishes in the *Spring Fiscal Policy Bill* an appendix which includes a detailed description of its investments and capital stock based on information from the National accounts and the Annual report, to inform the discussion on the level of capital expenditure.¹⁷ More importantly, the budget balance and net lending, measured according to statistical standards, remain the key fiscal figures in Sweden, and focus most of the political and public attention.

5.1.3. Agencies and local governments' financial statements

As mentioned above, agencies operate within two accounting systems, one on an accrual basis for establishing their annual financial statement, and one on a modified cash basis for reporting on their budget execution. Consequently, agencies' individual year-end financial reports are comprised of a suite of “standard” accrual financial statements (statement of financial position, statement of financial performance, cash flow statement, and notes and disclosures), and a modified cash basis budget execution report. In addition, a “statement of results of operations” describes the results of operations and presents

detailed calculations of the unit costs of services delivered. It is the basis of continuing dialogue between the senior officials of the agencies and those in the ministries. Agencies' financial statements are audited by the Swedish National Audit Office. The NAO gives an opinion on whether the accounts are true and fair (financial audit) and the financial law, ordinance and regulations have been respected (compliance audit). For each agency, the audit opinion is communicated on 22 March at the latest. The NAO also gives a limited insurance on the six-month financial report prepared by some of the main agencies.

Budgeting and accounting practices, at the local level, have remained heterogeneous for long time, as local authorities have some autonomy for developing their own accounting policies and systems. Since the beginning of the 1990's, though, the local entities have adopted the accrual basis of accounting, in line with the requirements of the *Municipal and County Accounting Act*. Further requirements on municipalities and county councils bookkeeping and accounting are set out in the *Municipal Accounts Act*, which came into force on 1 January 1998. Municipalities and Counties' financial statements, like those of other public entities, are audited annually, by auditors appointed by the municipal or country council.

5.2. Identification, management, and disclosure of fiscal risks

5.2.1. Overview

In the wake of the financial crisis that hit the country in the 1990s, the Government has developed a tradition of monitoring, *ex ante* and *ex post*, risks to public finances. The impact of aging of the population and migration on the public finances is analysed regularly, and management policies and budgetary policy targets have indeed been developed in a number of key areas (see Table 5.4).¹⁸

Table 5.3. **Risks to public finances in Sweden: Overview of management, monitoring and disclosure practices**

Risks	Management and/or Monitoring	Main Disclosures
Aging, migration, and Long Term Sustainability	Pensions are fully funded; Net lending target takes pensions into account.	Spring Bill; Yearly updates by Statistics Sweden, and migration Board outlook. Sweden Convergence Programme.
Lending and guarantees	Credit and guarantee model. Schemes and Funds to manage risks related to the financial sector. No specific management framework for guarantee on pensions.	Budget Bill; Annual Report; Sweden Convergence Programme; Annual risk assessment report by the Swedish National Debt office
State Owned Enterprises (SOEs)	Ownership policy; individual financial targets.	Annual Report on SOEs; Annual report.
Local Government	Budget rules (incl. balanced budget); Net lending target takes local government into account.	Counties and Municipalities financial statements; National Accounts; Annual report on the local government's economy.

Reporting is also well developed: i) the Spring Fiscal Policy Bill contains among other things the Government's views on the macroeconomic situation, a long-term sustainability of fiscal policy assessment, and follow up of budgetary policy targets; ii) the report on Sweden's convergence programme discusses the fiscal policy and a number of the risks to public finances; and iii) other reports provide additional information (for example, the Annual Report on SOEs).

5.2.2. Aging, migration, and long term sustainability of public finances

In Sweden, as in most other advanced economies, aging and the rising cost of long term care and healthcare are expected to increase government spending. The effects of an ageing

population were identified as a challenge to public sector expenditure some 20 years ago, and there is a general awareness of this issue among the Government, Parliament, and the public at large. This awareness was increased with the emergence of another demographic challenge: Migration. In this context of political and public scrutiny, Statistic Sweden has been tasked with producing at least yearly updates on population forecasts to inform the debates and political decisions. The Migration Board outlook is another source of shorter term population data. Projection techniques often involve the use of average costs, frequencies, etc., divided by sex, age and sometimes origin, multiplied by the expected number of individuals in the respective sex, age and origin bracket.

The population projections prepared by Statistics Sweden inform the long term sustainability analysis produced annually by the Ministry of Finance, and published as a chapter of the Spring Fiscal Policy Bill.¹⁹ Based on Statistics Sweden's forecasts, a number of scenarios are produced, and an explicit sustainability assessment is done by the Government. The scenarios are based on the Government's assessment of trends in Swedish economy (productivity, labour market...), in addition to population forecasts. The analysis is built on two sustainability indicators.²⁰ In 2015, several scenarios were presented by the Government. The reference scenario was based on the assumption that the fiscal policy would remain unchanged and concluded that the country's fiscal policy was sustainable over the long-term. An alternative scenario with higher demand for leisure and welfare services resulted in more pressure on public finances, while a scenario with a longer working life concluded that general government finances could be strengthened over time.

Other assessments of the long-term sustainability of fiscal policy are elaborated by public institutions in Sweden. The Spring Fiscal Policy Bill and the long-term sustainability assessment are scrutinised by the Fiscal Policy Council (FPC), as a part of their yearly report to Parliament. In addition, the National Institute of Economic Research (NIER) also produces an independent yearly assessment of fiscal policy sustainability.²¹ Sweden is also a member of the European Commission Ageing Working Group, which publishes reports on the sustainability of all member states every three years. The FPC, NIER and European Commission believe that the fiscal policy is less sustainable than assessed by the Government. In short, the Commission sees a low risk for an unsustainable development in the short and medium term, up until 2030, but a somewhat higher risk in the period thereafter, primarily due to increasing costs for long term care. The NIER economic outlook is more pessimistic than the one of the Government and its definition of 'unchanged policy' results in the Government's consumption growing at a faster rate. For the FPC, a possible bias exists in both the Government and NIER calculations. Indeed, both assume that the pension system is stable and autonomous. However, the FPC notes that a sharp decline in the pension levels is to be expected because of the increase of the average lifespan, given that the effective retirement does not change, and fears that the system will prove politically unsustainable. Sustainable long-term finances, according to the FPC, would therefore necessitate an increase in the retirement age.

The variety of reports on long-term sustainability in Sweden give a clear message about the impact of demographic and other factors and of the scale of policy action that is required for overcoming those. The acknowledged importance of the topic does not result however in the expected level of political and public attention according to the authorities. In particular, the long-term sustainability assessment does not appear to have a significant impact on the annual budget debate. Including to the assessment a list of concrete policy options which would have a significant bearing upon long-term sustainability could help in increasing the visibility and impact of the important work realised in this area in Sweden.

5.2.3. State Lending and Guarantees

Government guarantees are defined in Sweden as the “the central government providing a surety for another party’s payment obligation, which incurs a financial risk for the central government”.²² The Budget Act is setting the general framework for issuing guarantees and loans, but some guarantees (or *pledges*) are regulated by specific laws. The legal framework for State guarantees and loans was revised in Sweden in the 1990s, with three core principles set up in the Budget Act: recovering of costs, risk management, and transparency. These principles are implemented as follows:

- With regards to cost recovery, State guarantee and loans should also be self-financed over the long-term. To that aim, a fee corresponding to the State’s expected loss and costs (e.g., administrative costs) is set by the responsible authorities, following public methodologies.²³ The fees collected are wired to the Swedish National Debt Office (Riksgalden – SNDO) and reported against a notional reserve account;
- With regards to risk mitigation, the main principle is that authority should perform due diligence to insure that beneficiaries are financially viable at the time of the issuance of the guarantee or loan. The commonly used methodology is credit rating, except for student loans;
- With regards to reporting, the Budget Act states that the stock of guarantee and on-lending should be reported in the *Annual Report*. Other information requested includes: The identification and assessment of essential risks factors (e.g., sector concentration), comments on the ability of the SDNO as the debt manager to handle potential cash payments if guarantees were being called, various information on the portfolio (such as the maturity structure).

Within that framework, the Parliament makes decisions about the purpose and amount of State guarantees and loans. In compliance with the principles defined in the Budget act, the Guarantee and On-lending ordinances established by the Government define the detailed rules governing the authorities managing the State guarantees and loans, with regards to contractual terms, fees, monitoring, and reporting. Once approved, these guarantees are commissioned to a particular authority (see Table 5.4). In most cases, the commissioning is done annually by granting a maximum amount in the appropriation letter, but this can be done via separate decision if needed. The authorities are responsible for issuing the approved loans or guarantees, realising, monitoring and reporting, and closing the loan or guarantee when needed. The SNDO has a central role within that framework: As the central government ‘financial manager’, it assists the other authorities in establishing management practices, and co-ordinates the reporting on loans and guarantees. This management model is summarised in Figure 5.2. It has proved efficient over the last years, with positive cash-flows generated each year since 2001, from SEK 1 to 6.5 billion.

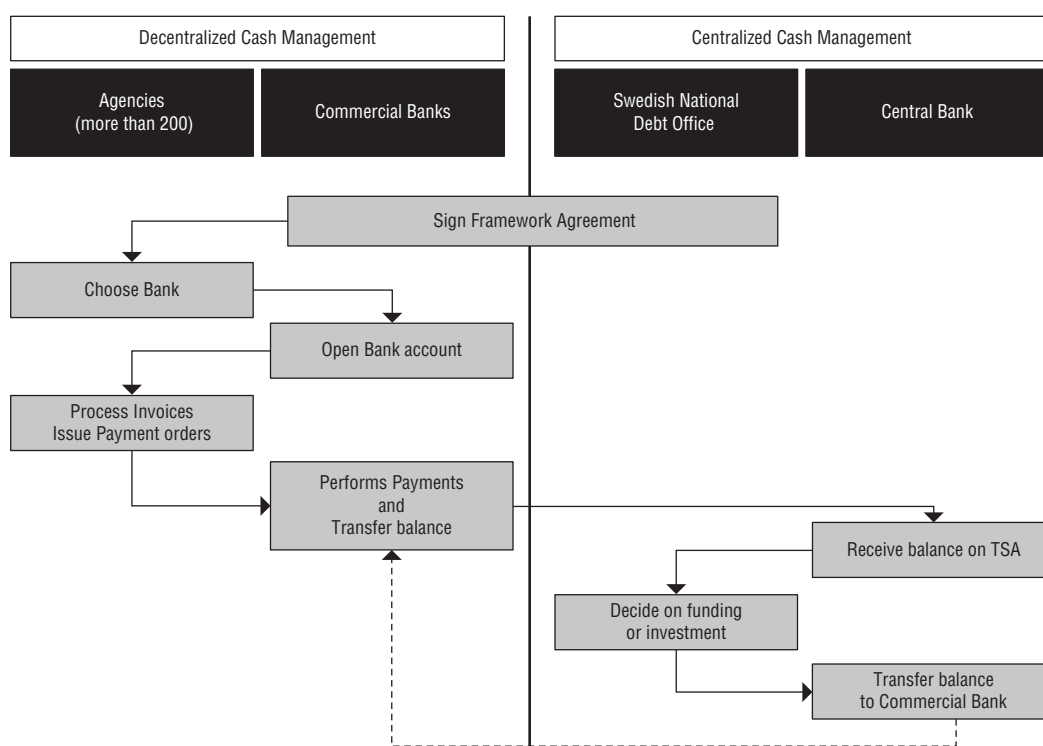
A number of contingent liabilities are not monitored and managed within the framework described above. They include the guaranteed pensions, which are considered as social benefits by the Government. As such, only the annual payments are reported in the *Annual report*.

Two insurance schemes similar to guarantees are managed by the State: The *Deposit Insurance* and *Investor Compensation* schemes.²⁴ The Deposit Insurance Scheme covers all type of accounts at deposit taking institutions, and covers deposits up to EUR 100 000 per customer and institution. It is funded by annual *ex ante* contributions, with no link between annual fees and the expected loss on guarantee. The fees are wired to a fund managed by

Table 5.4. **State Lending and Guarantees and Responsible Authorities**

State Lending and Guarantees	Responsible Authority ¹
Export Credit Guarantee	Swedish Export Guarantee Board
Development Aid guarantee and loans	Swedish International Development Cooperation Agency
Housing Credit Guarantee	Swedish national Board of Housing, Building, and Planning
Capital guarantee and multilateral banks	Swedish National Debt Office
Miscellaneous guarantees and loans²	Swedish National Debt Office
Student loans	Swedish Board for Study Support (CSN)

1. Other authorities and agencies that can provide State loans are: the Swedish Agency for Economic and Regional Growth, the Swedish Energy Agency; the Legal, Financial and Administrative Services Agency; the County Administrative Boards.
2. The largest credit guarantees concern export credit guarantees and investments in infrastructure and the largest loans, beside the loan to the Swedish Riksbank, concern student loans. During the global financial crisis that started in 2008 and the following economic recession, guarantees and loans have also been directed to the automotive industry.

Figure 5.2. **State Guarantees and Lending Management Framework in Sweden**

Source: Author (based on information provided by the Government of Sweden).

the SNDO, and invested in bonds or T-bills. The government exposure is evaluated at SEK 1 313 billion as of 2013. The Investor Compensation Scheme covers investors in securities held in custody by an institution up to SEK 250 000. The scheme is also managed by the SNDO, and is financed by *ex post* fees

In order to minimise impact of the 2008 financial crises on the real economy, a framework for Government's intervention in case of a financial crisis has been defined in the *Government Support to Credit Institution Act*. This Act states mainly that conditions are to be attached to the government's support, and the government may temporarily claim ownership

of the supported entity. The law also created a *Stability Fund*, financed by fees from credit institutions. Payments are placed in an interest-bearing account managed by the SNDO. However, if the Fund falls short of the required support in case of a financial crisis, an automatic backing by the SNDO is ensured.²⁵

The government's full exposure with regards to guarantees is disclosed in Sweden's convergence programme. The Government evaluates the face value of its commitments at SEK 1 727 billion as of 2014, with the deposit insurance scheme and credit guarantees being the main commitments. In terms of anticipated losses, provisions are recorded by the responsible authorities in their financial statements for those guarantees that are regulated by the *Budget Act*. No assessment is made for other guarantees and consequently no provision recorded for, anticipated losses.

5.2.4. State Owned Enterprises (SOEs)

The State's corporate portfolio includes 48 companies of which 40 are fully owned by the Government and 8 jointly owned. The legal framework for SOEs is composed mainly of the Swedish Companies Act, which applies to all limited liability companies in Sweden, and the *State Ownership Policy*, which defines the Government's ownership objective, key governance principles, and guidelines for remuneration and external reporting. The overall objective is for the companies to generate value within a sustainable business model and, where applicable, ensure that specially commissioned public policy assignments are carried out.²⁶ Since 2014 the Ministry of Enterprise and Innovation is in charge of overseeing all SOEs.²⁷ This oversight is carried out by two specialised divisions within the ministry where *investment teams* are set up for each corporation. Dialogue between the government and SOEs' management for setting-up the financial targets and non-financial targets (incl. sustainability targets), and the monitoring of these targets is one of the cornerstones of SOEs oversight in Sweden.²⁸ Ownership meetings take place regularly to monitor and discuss the companies' performance in relation to these targets: Where targets are not met, action plans are systematically required.

The investment policy of the Government is one of the sources of risk for the State. This risk is well monitored in Sweden as the Government cannot engage in any corporation shares' acquisition or sale without a mandate from the Parliament.²⁹ Mandates to change the State's ownership in enterprises are limited, and have been focused over the last years on phasing out the operations or liquidating a number of companies, rather than undertaking new investments.³⁰ Liabilities and contingent liabilities of SOEs are a second source of risk for the State. The financial targets that are set for developing the value of the companies and monitored closely in-year help addressing this risk. The government uses a limited number of ratios (cost of capital, capital structure, profitability) to set SOEs' financial targets. For these corporations that implement public policies, meeting financial targets presents special challenges that are acknowledged when setting objectives in terms of financial ratios and dividends' distribution. These companies also often receive funding for compensating partially or fully the cost of public policies' implementation: These transfers are disclosed as appropriations in the Government's budget.

The government also sets individual dividend policies, which aims at insuring predictable and sustainable dividends. The dividend policy is expressed in percentage of net profit for the year and defined on the assessment of each company's investment plan and growth opportunities: Where an investment will increase of value above the level of the cost of capital, the dividend policy should be adjusted accordingly. In particular, the more

attractive investments a company has (that is, investments whose expected returns equal or exceeds the cost of capital), the more capital the company should be able to retain for investments. Within that framework, the financial situation of the public corporations appears overall to be strong with positive net profits at the consolidated level, except in 2015.³¹ However, the State's dividends have decreased significantly over the last ten years, from SEK 31.3 billion in 2007 to SEK 20.4 billion in 2015.³² In 2015, SOEs received SEK 6.2 billion in appropriations, to be compared with the level of the State's dividends mentioned above.

Overall, transparency on the management and financial situation of the Central Government's SOEs appears excellent. The majority of SOEs report according to IFRS and publish annual reports and quarterly reports in much the same way as listed companies. The *Annual Report on State Owned Enterprises* is the key accountability document, in which parliamentarians and the public at large find detailed explanations on SOEs' management framework and purpose, method, and process for setting financial targets. The report also discloses sustainability, policy, and financial outcomes against targets and the financial performance for each company and the portfolio as a whole, as well as the value of the portfolio. The *Annual Report on State Owned Enterprises* is communicated to the Riksdag in June every year.

5.2.5. Local Government

In Sweden, fiscal risks related to sub-national governments are monitored *ex ante* through fiscal rules, as follows:

- A balanced budget rule is in force since 2000. This rule requires municipalities and county councils to adopt a budget in which revenues exceed costs, provided that there are no *special circumstances*. If a deficit arises in a particular financial year, this must be corrected within three years. According to the authorities, since the adoption of the rule, the compliance record has been satisfying;
- Since 2005, municipalities and county councils have also been required to implement a sound financial management – that is to set financial targets – of their operations. A commonly applied measure is that the annual result (or earnings) should amount to 2% of revenue from taxation and grants from the central government;
- The general government net lending target incorporates net lending in the local government sector.

Transfers to counties and municipalities are disclosed in the budget documentation, and each county, council and municipality establish financial statements annually. In addition the financial accounts of local entities are consolidated annually in the *National Accounts*. Despite this good level of transparency, the aggregated fiscal risks related to the funding needs of the local government, and their overall financial situation, are little discussed in the governments' budget documentation. In particular, information on the relatively large sector of municipalities and councils owned enterprises is limited. In both cases, the reported results, return on equity; equity ratio have decreased over the last years.

5.3. Budget execution and monitoring

5.3.1. Budgetary autonomy of the agencies

After allocations are laid down in the budget act, the Government's role in budget execution consists mainly of issuing letters of appropriation that define the tasks and assignments of each agency, its funding (appropriations and fees), and associated financial

restrictions. Ministries assign much importance to the preparation of these letters, and efforts have been made to improve and harmonise the content of the letters of appropriation over the last years: Information on funding sources appears complete and reliable, but differences may remain in the way the public policies' aims are translated into concrete tasks and remits for agencies.

Following the issuance of the appropriation letter, ministries are not expected to take part in day-to-day operational decision making, or to exercise financial control. Therefore, within their overall mandate for putting the Government's policy into effect and the annual 'framework' of the letters of appropriations, agencies have a large degree of operational and financial autonomy. With regard to executing their budget, the full budget allocation for administrative expenditure is available to them on 1 January of each year, and can be used on a discretionary basis by agencies' management towards the objectives set in the letter of appropriation. However, for transfers, fixed assets acquisitions, and equity investments (if any), agencies receive separate appropriations. In return for this high level of financial autonomy, agencies are expected to adhere to strict performance reporting rules; the way in which this aspect of agency governance has evolved in recent years is outlined more fully in Section 3.

As in most OECD countries, budget allocations are annual, and agencies are expected to use their allocated resources within the year. In Sweden however, agencies benefit from reasonable flexibility in managing their financial operations; indeed:

- Up to 3% of their annual appropriation for running costs can be saved for the next year as regulated in the ordinance concerning appropriations (if needed, larger amounts can be approved by the Government on a case-by-case basis;
- Acquisition of fixed assets used in the agency's own activities can be financed as needed with loans from the National Debt Office within the limitations given in the letter of appropriation for the agency in question;
- In addition, agencies can benefit from multi-year commitments with regard to administrative expenditure – these are to be financed with future appropriations.

A number of other rules regarding budget execution are laid out in the *Budget Act*:

- Following concerns that the carry-forward system would generate an excessive budgetary burden, the law was modified in 2011 to state that “*unused appropriations may be used at latest two years after the appropriation was last entered in the budget*”;
- The Parliament can grant a yearly permission to exceed limitations on appropriations that are not running costs. The Budget Bill usually states that under special circumstances the government can exceed an appropriation, but must with the next budget bill, seek permission for the new appropriation level as well as explain how the extra expenditure will be covered (usually through cuts to another appropriation).

5.3.2. Control and financial steering

While agencies' autonomy is a cornerstone of Sweden's public financial management, their capacity to engage in financial operations that could generate budgetary burdens is restricted through a set of *ex ante* budget rules:

- Multi-annual commitments not connected to the normal running of an agency are capped: they are authorised by the parliament, if they amount to more of SEK 10 million or more than 10% of a given appropriation;

- Acquisition of assets that convey fiscal risks is monitored: Financial assets' acquisitions (such as equity shares) must be authorised by the Parliament and are financed by a dedicated appropriation;
- Borrowing is limited: An appropriation may, according to the Budget Act, be temporarily exceeded by claiming the use of a credit corresponding to at most 10% of the allocated appropriation (an appropriation credit). However, the Government usually decides on a lower level of the credit for government agencies. Normally only up to 3% of the annual appropriation can be borrowed against future appropriations.³³

In addition, ordinances issued by the Government and regulations issued by the ESV establish bookkeeping, controls, and reporting requirements. Agencies of a given size or other importance are also required to have an internal audit function. Within this framework, agencies are responsible for their internal control and audit routines.

Lastly, a regular steering of the agencies' financial situation is performed by the Swedish National Financial Management Agency (ESV, Ekonomistyrningverket):

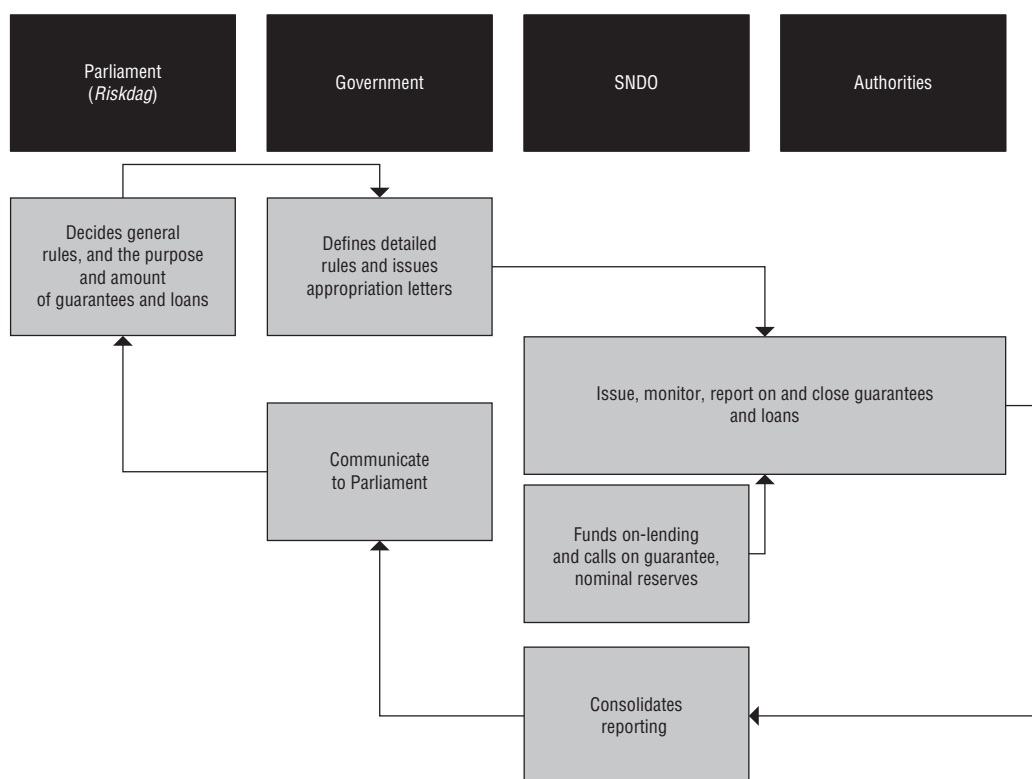
- Monthly (around the 10th of each month), the agencies send their budget execution report electronically to the ESV. Once this data is received from agencies, the ESV checks the completeness and performs quality controls. These include comparison of actuals to the budget, the latest forecast, and previous years' outcomes. The aggregated financial data and ESV analysis is sent to the MoF, with a meeting organised monthly.
- Annually, a "financial management rating" of financial processes and reporting is monitored by the ESV. It consists of about 40 questions which are answered both by the agency and the ESV. The ESV is responsible for compiling the rating and report to the government. It is to be noted that the latest ratings have consistently highlighted a very good quality of financial procedures in agencies.

In addition to these formal reporting requirements, informal contacts between the politicians, officials in ministries, and agencies take place regularly. With regard to budget execution, these informal contacts may aim at evaluating the costs for achieving certain public policies or activities on an *ad hoc* basis.

5.3.2. A dual cash management system to support budget execution

Overall, the Swedish cash management model aims at facilitating the budget execution at the agency level, and performing timely payments at a low cost for the Government. To achieve this objective, the authorities have developed a cash management system that is both decentralised and centralised (see Figure 5.3).

Agencies are expected to perform their payments in time and in compliance with the law and regulations. To that purpose, they set their own financial procedures and operate bank accounts located in commercial banks. The government believes that using the commercial banks' decentralised infrastructure and payment services provides greater efficiency in performing daily financial operations. In Sweden, four commercial banks have framework agreements with the government. These framework agreements cover three financial areas: Payment services, credit cards and travel account services, and prepaid cards. Agencies cannot subscribe any other service with the commercial banks than those defined in the framework agreements. Allocations for the agencies' administrative costs are wired to their bank accounts one-twelfth each month: Agencies that exceed their monthly allocation will pay interests, while agencies that do not will receive interests on the balance in the account.

Figure 5.3. **Cash-Management Model in Sweden**

Source: Author (based on information provided by the Government of Sweden).

A cash-pooling system has been set up to minimise the costs of the central government's financial operations. To that purpose, the Swedish National Debt Office operates a Treasury Single Account (TSA) located at the Central Bank (Riksbank). Transfers from agencies' accounts in commercial banks to the TSA are performed daily, according to the rules and requirements set up in the framework agreements with commercial banks. The functioning of the cash pooling can be summarised as follows: The commercial banks sweep the agencies' bank accounts three times a day, all liquidities are collected into the commercial bank top accounts, and the net sum is wired to the TSA. As a result, liquidities are pooled and agencies' accounts are set at zero daily. In addition, agencies provide regular forecasts to the Swedish National Debt Office. Based on these forecasts, the Office can establish its funding and placement strategy. Funding sources are mainly commercial paper in EUR, SEK, or USD; O/N borrowing in the deposit market; T-bills. Placements include deposits, T-bills buy-back, short-time maturity bonds.

5.4. Summary assessment

Sweden provides an extensive and timely set of fiscal information, with budget execution reports covering the financial statements covering the central government, national accounts covering the general government, and *ad hoc* report on SOEs and other fiscal issues e.g., (debt management). Transparency on financial management practices is also excellent, with several reports published and maintained by the Government. Except for the national accounts, which are mainly technical documents, the Government's reporting remains largely focused on the central government and fails to bring to the political attention

a more comprehensive view of the financial situation of the public sector in Sweden, which would include the public pension funds, municipalities and councils in particular.

Similarly, it is difficult to form a clear and comprehensive overview of the full range and extent of fiscal risks that exist in Sweden, and possible correlations between them. The Annual Report, which is subject to little scrutiny so far, could provide this wider view of the public finances and fiscal risks, and therefore becomes a reference summary document.

The budgetary autonomy granted to agencies comes with a number of financial control requirements and a regular steering of their financial situation that conforms to the OECD Recommendations on Budgetary Governance. A good balance seems to have been achieved between flexibility and control, with regular and reliable reporting to the Government. Likewise, cash management appears well organised and managed, and allows agencies to execute their budget efficiently within the year.

6. Public investment planning and budgeting

6.1. Overview of public investment planning and budgeting

6.1.1. Responsibilities and co-ordination across the public sector

In Sweden, investment in public infrastructure and assets is carried out at all levels of the public sector, including state-owned enterprises (SOEs). The Central government carries out investments mainly in railways and State roads, defence assets, and governments buildings; local government invests mostly in municipalities streets and roads and buildings used for delivering local public services; and SOEs are in charge of constructing and maintaining several public infrastructures (see Table 6.1). Information on the prioritisation and cost of the State's investment in public infrastructure and assets is therefore scattered into different financial reports, at central, local, and SOE levels.

Table 6.1. **Capital expenditure at different levels of government**

Central Government	Counties and Municipalities	State and Local Government owned enterprises
Transport Infrastructure (railways and State roads) ¹	Transport infrastructure (municipalities' streets and roads, light rail in cities,...) ^{1, 2}	Transport infrastructure (e.g., <i>Jernhusen, Arlandabanan, Gota Kanal, Sweda...</i>)
Defence	Hospitals	Electricity utilities (e.g., <i>Vattenfall</i>)
Government buildings	Schools	Universities and colleges (<i>Akademiska Hus</i>)
	Housing	Housing (e.g., <i>Statens Bostadsomvandling AB</i> , and municipal housing companies, ...)

1. Sweden has 98 500 km of State roads and 41 600 km of municipal streets and roads.

2. Swedish law stipulates that the county council and the municipalities within a county are jointly responsible for regional public transport (although the county council and the municipalities within a county may agree to that either the county council or the municipalities should bear the responsibility).

The central government has a strong say in terms of strategic planning and budgeting of public investment, in particular in the transport infrastructure area (see following section). Municipalities play a less important but active role in public investment, but are responsible for investing and maintaining the municipalities' streets and roads. They also invest in public infrastructure through municipality owned enterprises. Indeed, a distinct feature of the Swedish system is its "hourglass" configuration: The central government and the municipalities hold the majority of powers and functions, while counties/regions have long been relatively weak. However, an increasing focus on regional development since the late 1990s has led to a better dialogue and co-ordination between the Government and

local authorities. In most counties, there are regional development councils (RDCs), which are in charge of defining and promoting plans for regional transport and infrastructure. In addition, there are two bodies in charge of co-ordinating across levels of government for public investment in Sweden, the Swedish Agency for Economic and Regional Growth and the National Forum for Regional Competitiveness, Entrepreneurship and Employment.

6.1.2. Financing of public investment

At the central government level, as in most OECD countries, capital budgeting is integrated into the annual budget process. There is no legal framework or public guidelines that define how financing modes are selected for each individual project: As part of the annual budget process and taking into account budgetary constraints, the Government makes *ad hoc* decisions on the financing model for new investments. For capital expenditure other than transport infrastructure, the Government presents its investment plans in the Budget Bill. These investment plans contain both a specification of assets and of the financing mean. The Government has also recently, in the Budget Bill for 2016, started to present an overall investment plan for all government investments.

Most of central government investment appears to be implemented by traditional procurement and financed directly via appropriations on the budget, and in some cases with loans subscribed via the NDO. However, the government is using increasingly alternative financing modes for funding public infrastructure and government buildings, such as dedicated State loans repaid with users' fees or local taxes (e.g., congestion taxes).³⁴ These financing modes however, generate contingent financial liabilities for the Government, which would take over the repayments in case of a decrease in collection of users' fees or local taxes.

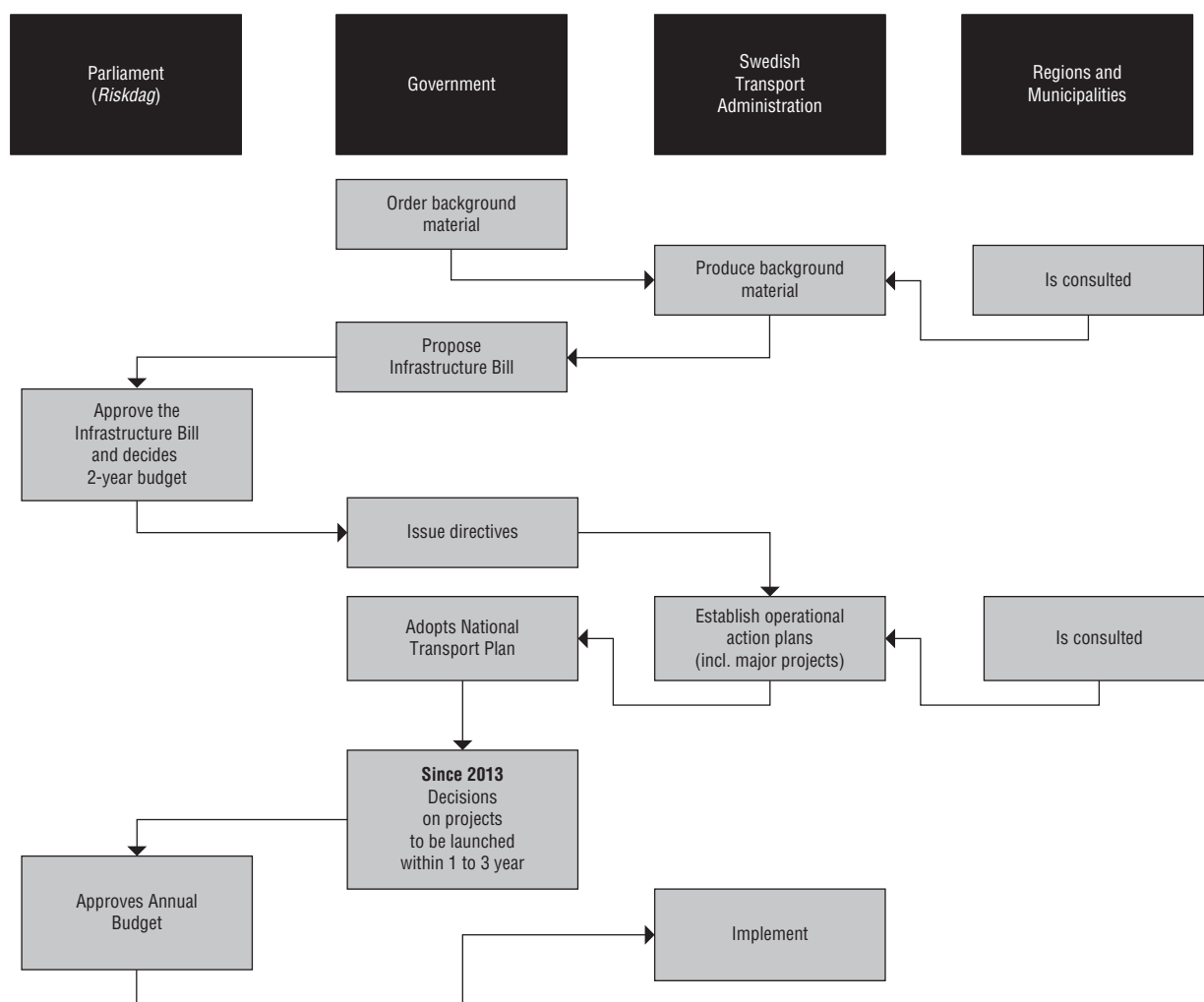
Public investment at the local level is financed by the counties' and municipalities' own revenue, and to some extent on central government transfers and EU structural funds programme. Co-financing between the region and the Government takes place on a case-by-case basis.³⁵ Likewise, SOEs usually finance their investment with their revenue. The dividend policy of the Government towards a given enterprises may in addition, be adjusted to accommodate its investment plans. The Government's view is indeed that as an owner, it may benefit from an increase in value by allowing a company to retain and reinvest capital – that is in the cases where investments are expected to generate returns that equal or exceed the cost of capital.

Involving the private sector in the form of public-private partnerships (PPPs) has been historically unpopular in Sweden. PPPs have been seen, for the most part, as a source of financing, instead of as a means for improving the entire project process and as an alternative, more expensive way to finance public investments as private providers are likely to have higher costs of capital than public authorities. Therefore the Central Government has engaged to date in only one PPP. This contract does not entail any direct payment by the Government, and investments are financed by users' fees (concession model).

6.2. Transport infrastructure

6.2.1. The overall framework

The decision making framework for transport infrastructure is the most developed with regard to capital expenditure in Sweden. The four main actors are the Government (Riksdag), the Swedish Transport Administration (Trafikverket, STA), and the local authorities (see Figure 6.1):

Figure 6.1. **Overview of transport infrastructure planning and budgeting in Sweden**

Source: Author (based on information provided by the Government of Sweden).

- The Government defines economic or development goals and consults stakeholders on medium to long-term term strategy for public investment (primarily STA, but also other stakeholders such as regions and municipalities);
- The Riksdag discusses and adopts the Infrastructure Bill proposed by the Government. The Bill sets on a 12-year period i) the total budget for transport investment period and ii) framework for establishing more detailed investment plan (see Box 6.1). The Infrastructure Bill is updated and rolled-forward on a four-year basis;
- STA proposes a National Action Plan including major investment projects (all investments above SEK 50 million are listed individually in the plan), based on the Infrastructure Bill;
- After a broad consultation on STA's proposal (including an analysis by the Government agency Trafikanalys), the Government adopted the 12-year National Transport Plan;
- STA implements the National Transport Plan in co-operation with the local authorities concerned.

The *National Transport Plan* has traditionally been the key document with regard to transport infrastructure planning, as it lists the investments projects. Since 2013, however,

Box 6.1. Sweden's Infrastructure Bill

The 2012 Infrastructure Bill formed the basis for the National Transport Plan for 2014-25.

It contained the Government proposal for a 12-year budget of SEK 522 billion, comprised of: SEK 281 billion for new infrastructure, SEK 86 billion for maintenance and renewal of state railways, and SEK 155 billion for maintenance of state roads. The Government also planned SEK 53 billion of investments in road and railway financed with revenues from congestion taxes or road tolls.

The 2012 Infrastructure Bill also contained several chapters providing economic and policy information to the Riksdag. Issues discussed in the bill included:

1. A description of the transport system today – current state and challenges – and follow-up of the implementation of the National Transport Plan 2010-2021
2. The development of the transport system in relation to transport policy objectives
3. Priority investment measures for the period 2014-2025 and Outlook to 2050
4. The rationale for the increased levels of maintenance of road and rail
5. The financing of state transport infrastructure, including the use of revenues from track access charges for operation, maintenance and renewal of railway
6. Research and innovation for the development of sustainable transport
7. Information on the Trans-European transport network (TEN-T)

the Government makes annual decisions regarding the transport infrastructure projects that could start within 1 to 3 years. This change to the process aimed at giving to the Government more control on the implementation of the national transport plan, to align it better with the annual budget process. Consequently, the National Transport Plan has become more indicative, and the multi-year planning component of the transport infrastructure framework is significantly shorter than before in practice. Overall, despite the involvement of several stakeholders in infrastructure planning and budgeting in Sweden and the 12-year framework, the selection of investment projects is a Government prerogative.

6.2.2. Infrastructure investment prioritisation

Sweden's objective with regard to transport infrastructure is to ensure socio-economically efficient transport provision throughout the country. To achieve this goal, each potential new project is submitted to a public consultation and profitability analysis. Consultations are carried out by the STA and involve several activities, such as distributing information by mail, telephone contacts, correspondence and personal or general meetings.³⁶ For new projects above SEK 50 million, the STA evaluates the expected profitability of the infrastructure. The profitability is estimated based on the infrastructure's *Net Present Value Ratio* (NPVR) – that is the present value of social benefits minus the present value of costs for operation, maintenance, investments and social costs divided by the investment cost. Potential projects are then classified based on their NPVR. This project appraisal's methodology used by the STA has been stable over time, and appears transparent. A special unit of the STA is responsible for undertaking quality audits of the NPVR calculations before they are published on the STA's website.

Following the consultation and profitability analysis, Government then chooses on a discretionary basis which projects are to be included in the *National Transport Plan*. However,

the Government's choices of transport infrastructure projects do not systematically follow the classification of the STA: Projects selected are not those that are granted with the highest profitability. The Government's position seems to be, that the NPVR places too much emphasis on the economic impact of investments, and not enough on the regional development ones; hence a need for revising the projects' prioritisation at the political level. This practice has generated public debate. In particular, the Swedish Fiscal Council, in its 2015 report, estimated that the benefits from public investments could have been higher at around 50% if the projects with the highest profitability had been selected by the Government.

There have been concerns also that the Government's attention was focused too much on developing new infrastructure, as opposed to maintaining existing assets. However, the Swedish Fiscal Council has noted in its 2015 report that the evolution of the capital stock of road and railway does not evidence any deterioration of the existing assets. In addition, the 2012 Infrastructure Bill (see Box 6.1) and the 2014-2015 Budget dedicate similar amounts to operation and maintenance of existing assets and development of new ones.³⁷

6.2.3. Transparency and reporting

Information on investment in transport infrastructure has been developed over the last years. In addition to the multi-year Infrastructure Bill and annual budget, the Government publishes in the *Spring Fiscal Policy Bill* an appendix which includes a detailed description of its investments and capital stock. Complete information on the government's capital expenditure and assets' value is also provided in the Government's *Annual Report*.

In addition to this financial information, the annual report of the STA provides detailed information on on-going and completed major infrastructure projects. For major projects – that is projects above SEK 500 million, the annual report of the STA comprises information on costs deviations and an assessment of major risks and the general progress of the project. The report also includes an *ex post* evaluation of the profitability of new assets (all transport investments over SEK 50 million), one year after projects have been completed. After five years, another *ex post* evaluation is undertaken.

6.3. Summary assessment

Sweden's planning and budgeting framework in the area of transport infrastructure is managed within a framework that conforms to the OECD Recommendations on Budgetary Governance: Transport infrastructure investment plans are grounded on a strategy; a multi-year investment budget is endorsed by the Riksdag; projects are selected after a profitability analysis; and the approach to financing mechanisms is cautious, with a very limited use of PPPs.

As in many OECD countries, political preferences are allowed to play a role in project selection. In Sweden, the discretionary decision making of the Government on projects to be included in the National Transport Plan has however raised some concerns over the functioning of the transport infrastructure investment framework. There may therefore be a need for the Government to provide publicly and systematically, a rationale where transport infrastructure project selection deviates from the findings of independent cost-benefit analysis.

Public investment in Sweden is carried out in several other areas, including housing and energy facilities, at all levels of government, including municipalities and public corporations, and financed by various means, including EU-funding, transfers, or grants. There might be a case, therefore, for adopting a wider approach to public investment strategy and plans,

which the Government has started doing recently by presenting an overall investment plan in the *Budget Bill*, and to bring together, in the *Infrastructure Bill*, the approach for investing all the key economic infrastructure sectors. One benefit of this approach, for example, would be to afford a clearer view of how investment in the housing sector (a particular policy concern in Sweden at present, as indicated in Section 1.1) is co-ordinated, resourced and prioritised, relative to other areas.

7. Budget transparency, inclusiveness and impact

7.1. Transparency, openness and accessibility of budget information

Sweden is a country with a long record of openness and transparency in government operations. Sweden was among the first OECD countries to introduce Freedom of Information legislation, which has indeed served as a model for other countries.

In terms of traditional budget transparency, as the previous chapters demonstrate, clear and comprehensive budget reports are available to the public at various points of the cycle. The Spring Fiscal Policy Bill, itself an influential Swedish innovation, allows the government to frame the context for the annual budgetary process in broad terms in the early part of the year. The Spring Bill includes comprehensive information on the fiscal policy outlook, perspectives on fiscal risks and long term sustainability, and extensive baseline information on all areas of public spending. The spring period also sees extensive publication of financial reports and annual reports from agencies, as well as the Annual Report of the Fiscal Policy Council. The agencies provide regular and comprehensive reports on financial and performance matters.

In terms of providing information to the general public on budgetary matters, the website of the Government Offices www.government.se is a model of clarity and accessibility. The website adopts a clean and consistent presentation across all government ministries. For the Ministry of Finance, significant effort has been devoted to making the technical budgetary process, and the policy content of the budget, accessible to ordinary citizens. This includes short video presentations from the Minister, and a “five minute guide” to the key elements of the budget.

Engagement and participation by citizens and civil society

Beyond the high level of budget transparency, the level and nature of budget reporting during the course of the year is not designed to allow for public or parliamentary input to, or engagement with, the budget development process. While summary material and key figures from the budget are readily available in PDF format, there is no easy way of accessing the budget data in an open format, so that the data could be readily used and re-used by civil society organisations to inform policy analysis and advocacy.

There is not a strong tradition of pre-budget meetings with representative bodies (other than in connection with tax policy matters), nor do bodies make pre-budget submissions setting out their case for additional resources and/or policy initiatives. In part, this seems to reflect the high levels of trust that are apparently enjoyed by the public administration: the budget formation process is perceived by citizens and by civil society bodies as a matter to be handled within the government and administration, in the first instance.

In light of international developments in the area of open government, and of the potential benefits of more inclusive and participative approaches to policy development, the Swedish authorities may wish to consider whether procedural innovations in this area could support governmental objectives (see Box 7.1).

Box 7.1. From budget transparency to “open, transparent and inclusive budgeting”

The OECD Recommendation on Budgetary Governance (2015) re-states the existing guidance that budget documents and data should be “open, transparent and accessible”, criteria which are amply met in Sweden’s system. The Recommendation also calls on countries to provide for “an inclusive, participative and realistic debate on budgetary choices, by (a) offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle, both *ex ante* and *ex post* as appropriate; and (b) facilitating the engagement of parliaments, citizens and civil society organisations in a realistic debate about key priorities, trade-offs, opportunity costs and value for money”.

Sweden’s policy-making process is collaborative, involving extensive liaison across government on issues of common concern, and there are public consultation processes built in to the policy development cycle in most areas. However, the budget process itself is not particularly open to *ex ante* engagement on budgetary choices and priorities. Options that could be considered by the Swedish authorities for improving this aspect of policy-making could include:

- engaging parliament committees to a greater extent in the pre-summer discussions with the Ministry of Finance
- soliciting the views of citizens and civil society organisations, whether in the context of parliamentary hearings or in a parallel pre-budget forum
- following the Spring Fiscal Policy Bill with a “white paper” of pre-budget expenditure frames (for each Expenditure Area) and budget policy options, to inform public and parliamentary discussion about policy choices within existing fiscal constraints.

7.2. Assessing Impacts: Gender aspects of budgeting in Sweden

Sweden’s budget document includes an outline of budgetary impacts on the incomes of different types of household, as well as impacts on gender. The Spring Fiscal Policy Bill includes an appendix providing an in-depth analysis of distributional issues. The Budget Bill also includes a special appendix setting out the allocation of financial resources between women and men.

Gender budgeting in Sweden

As outlined in Section 1, Sweden has a long tradition of concern for gender equality, with legislative action dating from the 1990s, and an emphasis on embedding and mainstreaming the culture of equality in regional and local policy-making as well as at national level. Following a critical review by the Swedish National Audit Office in 2000, clearer guidance and support structures were put in place on gender mainstreaming and attempts were made to strengthen the focus on gender impacts in budgetary allocations through the initiative of *Jämna pengar* (“equal money”).

Since that period, the concept of gender mainstreaming – i.e. taking explicit account of gender impacts in the design and implementation of policies, at all levels and at all stages of decision-making – has become well established in Swedish public administration, with high-profile initiatives developed and implemented both in the Government Offices and the agencies. However, the government which acceded to power in 2014 and which has

described itself as a “feminist government” has signalled the need for further progress on aligning the budget process with gender equality objectives. This initiative is motivated not only for reasons of social justice, but also to underpin economic growth (including via a more complete labour market) and social progress, recognising also that the budget process provides an opportunity to apply a gender perspective from the outset of policy-making and resource allocation, rather than after policies have been put in place. Accordingly, a major project is currently under way in Sweden to advance gender budgeting.

As outlined in a separate OECD study (OECD, 2016), gender budgeting as a concept is multi-faceted and, to be effective, must be designed to apply the gender perspective at the stages of the budget cycle that are likely to be most impactful given country-specific requirements – whether upstream of the annual budget process (e.g. *ex ante* needs assessment) through to downstream, *ex post* stages of impact analysis and assessment (see Box 7.2). There is thus no one standard template of gender budgeting that should necessarily be adopted.

Box 7.2. Gender budgeting in practice: An OECD typology

OECD (2016) defines gender budgeting as “integrating a clear gender perspective within the overall context of the budgetary process, through the use of special processes and analytical tools, with a view to promoting gender-responsive policies”, i.e. policies which have been explicitly designed with the promotion of gender equality in mind. As the “budget process” is an annual (or indeed multiannual) event, there are several opportunities across the cycle in which the gender perspective can be brought to bear. The OECD study accordingly classifies gender budgeting interventions by the relevant stage in the process.

(a) *ex ante* Gender Budgeting approaches

Ex ante gender impact assessment: Assessing individual budget measures, in advance of their inclusion in the budget, specifically for their impact on gender equality.

Gender budget baseline analysis: An analysis which is periodically conducted to assess how the existing allocation of government expenditures and revenues contributes (or otherwise) to gender equality.

Gender needs assessment: A qualitative assessment, including views and opinions from stakeholders and civil society representatives, of the extent to which government policies and programmes meet gender equality needs, with a view to identifying priorities for policy action in the budgetary context.

(b) concurrent Gender Budgeting approaches

Gender perspective in performance setting: Requirements prescribing that a minimum proportion of budget-related performance objectives be linked to gender-responsive policies.

Gender perspective in resource allocation: Requirements prescribing that a minimum proportion of overall budgeted resources be allocated towards gender-responsive policies.

Gender-related budget incidence analysis: The annual budget is accompanied with an official assessment, conducted by the central budget authority (or under its authority), of the budget’s overall impact in promoting gender equality, including a gender-disaggregated analysis of specific policy measures (both revenue- and expenditure-related).

(c) *ex post* Gender Budgeting approaches

Ex post gender impact assessment: Assessing individual budget measures, after their introduction/implementation, specifically for their impact on gender equality.

Box 7.2. Gender budgeting in practice: An OECD typology (cont.)

Gender audit of the budget: Independent, objective analysis, conducted by a competent authority different from the central budget authority, of the extent to which gender equality is effectively promoted and/or attained through the policies set out in the annual budget.

Gender perspective in spending review: In the context of a national/“comprehensive” spending review, gender is routinely included as a distinct dimension of analysis.

Source: Gender budgeting in OECD countries (OECD, 2016).

In Sweden's case, the approach currently being crafted is founded upon the following key principles:

- Greater clarity within each ministry and agency regarding the equality impact of existing policies and of proposed new policies.
- Stronger attention, during the policy development phase, to the generation of multiple policy options which achieve the intended outcome, with more explicit analysis of the gender impact of the alternative options.
- Bringing forward, during the May-July phase of negotiations between line ministries and the Ministry of Finance, a more rigorous and standardised gender impact assessment of policy proposals, setting out the impacts on women and men in a clear and structured manner.
- Using the results of the gender impact analysis in an explicit manner when prioritising and assigning resources.
- Parallel presentation, in the context of the government's budget proposal, of the impacts of the overall budget measures on men and women.
- Designing a set of indicators to track progress towards achieving the government's goals for a gender-equal society.
- Additional resources, from 2016 onwards, for gender-specific evaluations and for the ongoing development of effective, impactful gender budgeting processes.

Through this overall approach, the aim is not to add to the administrative burden for the line ministries and agencies, but to re-structure and re-focus existing preparatory work to better inform decision-making, and to ensure that policy proposals with (inadvertent or negligent) negative impacts on gender equality can be identified and averted.

The success and impact of Sweden's gender budgeting initiative will need to be assessed over time. From the experience of other countries to date, if a gender budgeting process is to become embedded as a useful tool of public policy, it must be accompanied with system-wide resources such as a central resource of expertise, clear guidelines, and routine availability of gender-disaggregated data and statistics. In particular, a clear continuum needs to be established between the policy development cycle (from needs-assessment through to the design of policy interventions, implementation and *ex post* evaluation) and the specific resource-allocation elements of the budget cycle, with a clear sense of how these two cycles interact and overlap; clear linkages between the evaluative and impact-assessment requirements that underlie both cycles; and a clear “line of sight” between the outcomes of these analyses and their specific use in policy implementation and resource-allocation (OECD, 2016).

In other words, gender budgeting needs to be seen not as a procedural compliance tool, but as an instrument of good and impactful policy design that bears directly upon the substance of specific policies across all sectors of government. A test of the success of gender budgeting will be whether this approach yields new insights into the design (and re-design) of policy areas, which might not otherwise have been viewed as “gender related” or “gender sensitive” policies.

In progressing this initiative and assessing its impacts, Sweden benefits from close engagement on gender equality issues within the Nordic Council and the development of the concept within the wider OECD budget community will also be closely monitored.

Notes

1. For Sweden, the Maastricht debt consists of the consolidated central government debt and local government sector debt in the capital markets, less the value of the Swedish National Pension Funds holdings of Government's bonds.
2. www.oecd.org/gov/digital-government/open-government-data.htm.
3. A third, less formal form of steering is the ongoing dialogue between line ministries and agencies.
4. The NAO has two other areas of responsibility: international development co-operation and global operations. In international development co-operation and global operations, the NAO supports the development of independent professional auditing bodies abroad, mainly in Africa and south-eastern Europe. It also interacts with other Supreme Audit Institutions around the world, inter alia within the international organisation INTOSAI.
5. The annual audit includes the central government annual report and for all the authorities under the Riksdag and the Government, with the exception of the National Pension funds. A ministry memorandum (“New regulations for the National Pension Funds [Ds 2015: 34]”) that now circulates for comments proposes that the National Audit Offices’ annual review will also include the annual reports for the National Pension funds.
6. The NAO does not, however, provide comment on the value or quality of performance information. It is solely a confirmation of whether what each agency presents as its performance data is factually correct.
7. Act on the Audit of Government Activities, s. 12 (SFS 2002:1022).
8. The independence of local government is protected in Sweden’s constitution.
9. NAO Annual report 2010. www.riksrevisionen.se/PageFiles/14125/Annual%20report%202010_ENG.pdf.
10. Swedish National Audit Office: Peer Review Report;
11. Source: Ordinance with Instructions for the Fiscal Policy Council, SFS 2011:446.
12. The remaining staff are hired and managed at the discretion of the administrative head.
13. These elements are not budgeted, but their financial outcomes are reported in the Budget Bill.
14. COGNOS and HERMES.
15. They include copper, gold, hydropower, iron ore, lead, silver, timber, uranium, and zinc.
16. SOEs equity value is however reported in the balance sheet, with a note detailing the value of each corporation.
17. This information was among other things included in the spring bill as a response to a request from the Fiscal policy council.
18. Macroeconomic risks are a core element for defining the economic and fiscal policies of the Government. The Government’s assessment of the macroeconomic situation and its impact on budgetary decision-making is discussed in more detail in Section 1.1.
19. This information is also presented in Sweden’s convergence programme.
20. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five

years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP including financing for any additional expenditure arising from an ageing population. The long-term sustainability gap (S2) indicator is a measure of how large an immediate and permanent budgetary weakening (or strengthening) would be required to ensure the long-term sustainability of the general government's net position.

21. In addition, in 2015, the NIER published a special study on long-term sustainability.
22. Sweden's convergence programme, 2015, Section 3.8.
23. The Parliament can however make an exception to this rule.
24. These schemes were created by two dedicated laws: The Deposit Insurance Act and Investor Compensation Act, both based on the EU Directives.
25. In 2016 new were introduced in Sweden for managing the failure of banks, other credit institutions and investment firms (institutions). The new rules are based on the EU Bank Recovery and Resolution Directive, which was adopted in 2014. The Debt Office will be responsible for this new regulatory framework, which will replace much of the bank support legislation introduced in 2008. A Resolution Fund, managed according to broadly similar principles than the Stability Fund, should be created in that context. The authorities are exploring modalities for merging and optimising the management of the various fund (deposit, stability, and resolution), including introducing risk-based fees.
26. Certain SOEs are tasked by the Parliament with public policy assignments, which are formulated in their Articles of Association and may be stated in more detail in Government's instructions (also called owner instruction).
27. There are a few SOEs with public policy objectives overseen by other ministries. The most significant being Systembolaget AB, the Swedish alcohol monopoly, which is overseen by the Ministry of Health Affairs.
28. Financial target are usually set every 3-5 years and revised when necessary).
29. The Parliament's mandate applies to the state buying or selling shares. The SOEs themselves can buy or sell shares without parliamentary approval.
30. There have, however, been several corporatizations of government agencies performing economic activities. One example being Swedavia, the owner of ten national airports.
31. In 2015, net profits were slightly negative due to large write-downs in two of the SOEs. Dividends increased somewhat though.
32. Key figures disclosed in the 2014 Annual Report are as follows: Profit of SEK 16.5 billion and dividends of SEK 18.1 billion.
33. Acquisition of financial assets (such as equity shares) must be financed by an appropriation.
34. Repayment of loans with users' fees has been used for the construction of bridges in Sundsvall and Motala. A bridge to be constructed in Nacka will be financed under a similar model. Repayment of loans with local taxes has been implemented in Stockholm and Gothenburg.
35. In the current national transport plan, a number of projects are co-financed by the regions or local governments. One example would be Göteborgs hamnbana and Marieholmsbron (double railway tracks over the river Göta älv). All co-financing is optional and should mainly be for additions to original planned solution (which is a state responsibility). The State also co-finances regional and local projects such as the Stockholm Metro extension.
36. The Road Law (SFS 1971:948) and Law on building railways (SFS 1995:1649) state that during the process of establishing an investment plan, the county administrative board, the municipalities and individuals particularly affected should be consulted. If the plan is important for public transport, regional public transport authorities must also be consulted. Anyone who intends to build a road or railway shall also provide a basis for consultation and make it available and give the individuals which are likely to be particularly affected an opportunity to comment. The consultation should relate to siting, design and environmental impact. If the road or rail is likely to have a significant environmental impact, consultation shall also occur with other government agencies, the public and organisations likely to be concerned.
37. The 2015 Budget allocates SEK 281 billion for the development of the transport system, and SEK 241 billion to operation and maintenance of national roads and the national railway network.

Bibliography

- Government of Sweden (2016), www.government.se.
- Moretti, D. (2016), "Accrual practices and reform experiences in OECD countries Results of the 2016 OECD Accruals Survey", *OECD Journal on Budgeting*, Vol. 16/1, OECD Publishing, Paris, <http://dx.doi.org/10.1787/budget-16-5jlv2jx2mtzq>.
- OECD (2015), "Budget Review: Germany", *OECD Journal on Budgeting*, Vol. 14/2, OED Publishing, Paris, <http://dx.doi.org/10.1787/budget-14-5jrw4sxb32q4>.
- OECD (2016a), "Gender budgeting in OECD countries", *OECD Journal on Budgeting*, Vol. 16/3, OECD Publishing, Paris.
- OECD (2016b), *Accruals survey*.
- Robinson, M. (2014), "Spending reviews", *OECD Journal on Budgeting*, Vol. 13/2, OECD Publishing, Paris, <http://dx.doi.org/10.1787/budget-13-5jz14bz8p2hd>.
- Sveriges Riksdag (The Swedish Parliament) (2016), www.riksdagen.se/en/members-and-parties/.
- Swedish National Budget Office (NAO) (2010), *Annual Report of the Auditors General*, Government of Sweden, www.riksrevisionen.se/PageFiles/14125/Annual%20report%202010_ENG.pdf.

ANNEX

Sweden's budget system in light of the OECD Recommendation on Budgetary Governance

The OECD *Recommendation of the Council on Budgetary Governance* (C[2015]1) sets out ten principles of effective modern budgeting, based upon the experience and insights of the Senior Budget Officials and with inputs from the global community of PFM practitioners and experts. The table below provides a concise summary assessment of Sweden's budget system by reference to the ten budget principles, based upon the analysis set out in this Budget Review. Chapter/section references are provided in each case.

Budget Principle	Sweden's budget system	Reference
1. Clear fiscal limits	Sweden's 1% surplus rule provides a very clear fiscal anchor and is well-understood as a core element in the top-down budgeting system. The political commitment to the 1% surplus is diminishing, and maintaining a functional domestic rule will be a future challenge.	Section 2.2
2. Medium-term strategic alignment	A sound and particularly stable medium-term expenditure framework allows visibility of resources in line ministries. Weak articulation and transmission of government-wide strategic priorities.	Section 2.3
3. Capital budgeting framework	Sweden's planning and budgeting framework is well defined and managed, but there might be need for a better rationale to support the infrastructure projects' selection and a wider approach to public investment strategy and plans, i.e. to bring together, in the <i>Infrastructure Bill</i> , the approach for investing the all key economic infrastructure sectors.	Chapter 6
4. Open, transparent and accessible budget documents and data	Clear, comprehensive and high-quality budget information is openly available on-line, in a way that is designed to be easily understood by citizens. Budget data is not routinely available in open formats for re-use within civil society.	Section 5.1; Chapter 7
5. Inclusive, participative and realistic budgetary debate	Sweden's policy-making system is highly collaborative and includes opportunities for public consultation in particular sectors. The budget process, however, is not designed to allow for <i>ex ante</i> engagement with parliament or with civil society.	Chapter 7; Section 4.1
6. Comprehensive, accurate and reliable accounting	Sweden has advanced financial reporting standards within agencies, and regular high-quality reports throughout the accountability cycle. Financial reports are not routinely used in the budget process, and reporting is heavily concentrated on the central government sector.	Chapter 5
7. Active planning, management and monitoring of budget execution	The budgetary autonomy granted to agencies comes with a number of financial control requirements and a regular steering of their financial situation. Cash management is well organised and managed, and allows agencies to execute their budget efficiently within the year.	Section 5.3
8. Performance, evaluation and value-for-money	Performance information is fragmented across public administration: high standards of operational performance reporting in agencies are not clearly connected with high-level political or strategic goals. Evaluation systems contribute to effective intra-sectoral decision-making but are not brought together to exert a collective influence on budgetary decision-making.	Chapter 3
9. Fiscal risks and long-term sustainability	Excellent analysis on fiscal risks, albeit scattered among various unconnected reports; hard to see "big picture" of fiscal risk. Strong focus on long-term sustainability studies, timed to be of relevance to the budget cycle.	Section 5.2

Budget Principle	Sweden's budget system	Reference
10. Quality, integrity and independent audit	Strong network of independent fiscal institutions and professional agencies to underpin quality of budgetary forecasts. The Fiscal Policy Council is a respected commentator on structural issues; its reports are not designed to contribute directly to budget policy debate. The National Audit Office provides an audit service to high international standards, including a focus on performance; its strong level of independence should be balanced with close interaction with parliament on the quality of budgeting.	Section 4.2 Section 4.3
Other key issues	Gender budgeting: Sweden is currently building upon the institutionalised approach of gender mainstreaming to bring a clearer gender-responsive perspective to bear upon the budget and resource-allocation processes.	Section 7.2

Enhancing the finance function in line ministries

by
Dirk Kraan*

Despite fulfilling a crucial role in the delivery of public services, the finance function of line ministries has received little attention both in the past and in the present. This paper will focus on the finance function in line ministries, explain why a strong finance function is of paramount importance in the current era of lean and compact government and identify the reforms that need to be implemented in order to make this possible.

JEL Codes: H41, H50, H61

Keywords: Financial management, line ministries, financial control model, budget process.

* Mr. Kraan holds master's degrees in law and economics and a Ph.D. in Economics from Erasmus University in the Netherlands where he also taught public law and public administration from 1970 to 1981. Mr. Kraan was head of the Division of Spending Review in the Dutch Ministry of Finance, senior economist at the Division of Budgeting and Public Expenditures of the Directorate of Public Governance and Territorial Development at the OECD and was also Regional Public Financial Management Advisor for South-East Europe at the IMF. He provided technical assistance on fiscal institutions to the Ministries of Finance of the Balkan countries and served as advisor to the Centre of Excellence in Finance in Ljubljana, Slovenia. Mr. Kraan is currently working as an international consultant on public financial management.

The author is grateful for helpful comments on earlier drafts of this paper to Mojca Voljc of the Slovenian Ministry of Finance, Jan Mens and Tjeerd Tim of the Dutch Ministry of Finance, Mike Sunderland of the UK Treasury, Jon Blondal of the OECD Secretariat and Robert Baumüller of the Center of Excellence in Finance in Ljubljana. The remaining errors are the sole responsibility of the author.

1. Introduction

Financial management in central government has largely focused on the tasks, organisation, procedures and practices of the Ministry of Finance. In the 1990s and 2000s, attention was given as well to the role of sectoral managers in line ministries and their accountability for spending and results. This was the era when finance ministries were criticised for their focus on input control rather than performance and when more freedom was claimed for sectoral managers in the area of financial management. Neither before nor after has much attention been given to the finance function in line ministries. This is somewhat surprising because the finance directorate of a line ministry fulfils a crucial role at the interface of the finance ministry and the sectoral managers who are in charge of the delivery of public services. All waves of reform that in previous decades have had important effects on the organisation and procedures of financial management have had their impact as well on the finance function in line ministries, but the latter has often remained implicit. This paper will focus on the finance function in line ministries, explain why a strong finance function is of paramount importance in the current era of lean and compact government and identify the reforms that need to be implemented in order to make this possible.

The role of the finance function in line ministries is not the same in all OECD countries. There is similarity in that there is a finance directorate in each line ministry that is responsible for the financial administration of the line ministry. However, apart from the task of financial administration, the finance directorate may carry out other tasks, in particular in the areas of *budgetary control*, *fiscal co-ordination*, and *operational control*. With respect to these other tasks the role of the finance directorates is quite different between OECD countries.

This paper is structured as follows. Section two will provide a stylised description of the finance function of line ministries in countries where this function is mainly limited to that of financial administration (the “**conventional model**”), and in countries where this function includes the additional tasks of *budget control*, *fiscal co-ordination* and *operational control* (hereafter, the “**financial control model**”). Section three will explain why the additional tasks are increasingly important in view of recent ideas and reforms in the area of financial management. Section four will identify procedural reforms that contribute to the development of a strong finance function in accordance with the financial control model. Finally, section five will offer some concluding remarks on the political economy of these reforms, in particular why they would be agreed by incumbent politicians in countries that are currently still closer to the conventional model of financial management.

For the descriptive section, structured interviews were conducted with senior officials in three OECD countries: The Netherlands, Slovenia, and the United Kingdom. Slovenia was chosen because it represents a good example of the conventional model. The Netherlands and the United Kingdom were chosen because they represent two quite diverging examples of the financial control model.

2. Stylised description of the finance function in line ministries

In every OECD country, including the three that have been studied for this paper, the finance directorate of a line ministry may carry out tasks that are not directly related to the finance function and that in other ministries or in other countries are organised outside the finance directorate, for instance a procurement unit or an internal audit unit. Furthermore, there are often ministry specific units in a finance directorate, for instance, a unit for the recovery of wrongly paid social benefits in a ministry of social affairs, or a unit for EU funding in a ministry of transport. These tasks and the personnel involved have been left out of consideration in this paper. In some cases this concerns more than half of the personnel and resources of the finance directorate of a line ministry.

In all OECD countries, the finance directorate of a line ministry is responsible for the financial administration of the line ministry, even if this task is partly carried out by the sectoral divisions. Financial administration includes the formulation and execution of budgets and the preparation of financial reports. An example of an OECD country where the financial function is mostly limited to that of a financial administration is Slovenia. Box 1 provides some context about the budget process in Slovenia. Excluding specific tasks that are not related to budget preparation, execution and financial reporting, the staff of a typical finance directorate of a line ministry can be estimated in Slovenia at 15 employees at most.

Box 1. Key features of the budget process in Slovenia

Budget preparation proceeds according to the calendar set out in the Decree on Strategic Development Documents and on the Bases and Procedures for Preparation of a Proposed National Budget. The first budget circular from the Ministry of Finance should arrive within five days after the session of the Government where the ceilings of the medium term expenditure framework are decided. This session must be held before the end of June. The circular includes ceilings for expenditures of ministries and select other direct budget users in the upcoming budget year and one subsequent year, which are decided by the Government on the proposal of the Minister of Finance. The ceilings are based on the spring economic forecast produced by the Institute of Macroeconomic Analysis and Development (IMAD) and targets for deficit reduction. Whether the ministers and other direct budget users can negotiate the proposed ceilings before they are submitted to the Cabinet is not clear. The process is entirely political.

Slovenia has an annual budget cycle. However, normally the Government proposes and Parliament approves every year the annual budgets of two subsequent years. This implies that the proposal that the Government annually submits to Parliament is formally a proposal to change the budget for the upcoming year and to establish the budget for the subsequent year.

In Slovenia the authority to incur commitments and to order payments on behalf of the state belongs to so called “direct budget users”. There are 168 direct budget users, including 14 ministries (in 2015). All direct budget users have their own financial administration which communicates with the Ministry of Finance through an ICT system. However, only 38 direct budget users, including all 14 ministries, have their own expenditure ceilings in the financial planning process (the so called “proposers of financial plans”). The budgets of all other direct budget users have to be subsumed under the ceilings of this group of direct budget users (mostly under those of the ministries).

Box 1. Key features of the budget process in Slovenia (cont.)

The Ministry of Finance allows negotiations to take place after the first budget circular, namely in the summer and early September. However, normally the submission of budget proposals in accordance with the ceilings is a precondition for the start of negotiations. This gives the Ministry of Finance a “reversion level” advantage: if no agreement is reached the original budget stands. Negotiations usually focus on expenditure programmes and sub-programmes and proceed first at the level of civil servants, then between ministers and other proposers of financial plans, then in the Government. This leads to revision of the ceilings and ministerial budgets until ultimately the end of September.

During budget execution all direct budget users (including ministries) administer their own financial transactions. Incoming invoices are recorded and sent to the sectoral divisions to check whether the goods are delivered. After approval by the sectoral division, the invoices are checked against the budget (cash control) and then sent to the Ministry of Finance for payment via the ICT system. The Ministry of Finance conducts checks on the payment orders including the availability of sufficient budget (cash control). The commitments require prior recording and approval by the finance directorate of the line ministry and by the Ministry of Finance (commitment control).

Consolidation of accounts and financial reporting to Parliament is a task of the Ministry of Finance, but the finance directorate of line ministries and the financial officers of direct budget users, can consult the ICT system at any moment to obtain information about the execution of their budget.

In countries where the finance function is organised according to the **financial control model**, the finance directorate is responsible for the financial administration of the ministry similarly as in the conventional model, but in addition carries out the tasks of *budget control*, *fiscal co-ordination* and *operational control*. If these tasks are carried out effectively it is said that “the finance directorate functions as the line ministry’s own ministry of finance”.

Budget control amounts to the monitoring of budget preparation and execution and taking timely action, in order to avoid overspending on the budget or on medium term budget caps. In other words it leads to budgetary discipline. Taking action implies approaching the sectoral divisions responsible for the policy in question and ensuring that either a policy correction is proposed to the minister that will prevent overspending, or a policy change is proposed to the minister in another policy area under her/his responsibility that will compensate for the expected overrun. The policy corrections or policy changes have to ensure that the cap for all years of the medium term expenditure framework, including the current and upcoming budget year, is respected. In principle budget control covers all expenditure under the responsibility of the ministry, regardless of their nature, including entitlements, and regardless the macroeconomic conditions of upswing or downturn.

Fiscal co-ordination amounts to advising the minister in consultation with the sectoral divisions about spending priorities. This includes new spending initiatives as well internal reallocations among sectors to be submitted to the Ministry of Finance during budget preparation and execution. Fiscal co-ordination is a task that can only be carried out in close co-operation with the minister. A finance director will only be able to identify savings (and re-allocations to priority areas) in the ministry if he enjoys the full support of the minister in doing so.

Operational control means that the finance directorate maintains a permanent effort to check the effectiveness and efficiency of current policies, including the executive policies of arm's length and independent agencies under the umbrella of the ministry, and that it advises the minister on its own initiative about possible improvements of effectiveness and efficiency savings.

Examples of countries where the finance directorate of a line ministry serves in this sense are the Netherlands and the United Kingdom. Box 2 and Box 3 provide some context about the budget process in the Netherlands and the United Kingdom, respectively. These countries show that within the **financial control model** there is a wide variety of practices. This variety is due to significantly diverging divisions of tasks within line ministries between the finance directorate on the one hand and the sectoral divisions and agencies on the other hand. The size of a finance directorate in the Netherlands varies between 30 employees for small ministries to 100 for larger ones. The size of a finance directorate in the UK varies between less than one hundred for small ministries and several hundred for large ones.

Box 2. Key features of the budget process in the Netherlands

The annual budgetary process is determined by an expenditure framework of four years, coinciding with the term of parliament. The expenditure framework is part of the coalition agreement of the government and fixes aggregate net state expenditure in real terms. The aggregate ceiling is split out among 13 ministerial sub-ceiling and two ceilings for the health care and social security funds (attributed to the ministers of health and social affairs respectively). The aggregate expenditure path is aimed at a medium term fiscal target and is fixed in the light of a medium term macroeconomic forecast, put up by an independent fiscal forecasting institution (the Central Planning Bureau).

In the Netherlands, the annual budget preparation starts in March with an updating exercise of the expenditure framework. The aggregate expenditure ceiling cannot be changed from year to year without grave political consequences for the government coalition. Looking back to 1994 when the framework methodology was introduced, changes to the aggregate ceiling between elections have been very rare, and have mostly occurred because of European obligations under the Stability and Growth pact. However, whereas the aggregate ceiling is for all practical purposes unchangeable from year to year, the distribution among ministries and social security funds is flexible. It is not very flexible however, because a minister can only increase his/her ceiling at the expense of another minister which makes it hard to achieve, but in principle reallocation between ceilings is possible from year to year. These decisions are taken during the "main decision-making moment" in May. In order to make this possible information has to be available about updated expenditure baselines, as well as options for new expenditures and revenues. For the expenditure options the Minister of Finance makes use of the proposals for new policies that ministers have submitted in policy letters around February or March. After the summer, the ministers have to submit their draft budget while respecting the ceilings and incorporating the decisions made during the "main decision-making moment." The draft budget is submitted to Parliament in September. The line ministries have large autonomy as long as they respect their ceilings.

Budgetary discipline is maintained through strict compensation requirements, laid down in "rules of budgetary discipline". Baseline forecasts at line item level for the entire period of the medium term framework have to be updated seven times per year through the ICT system while complying with the "rules of budgetary discipline." Budget reallocations during

Box 2. Key features of the budget process in the Netherlands (cont.)

the implementation year have to be approved by Parliament via supplementary laws in the spring and autumn of each year.

During budget execution, commitments and payments are made by budget holders. In every ministry there is regulation that determines who the budget holders are and what their competences are (budget holders lower in the hierarchy have smaller responsibilities). Agency heads and heads of sectoral divisions are the top budget holders. Preventive commitment control by the finance directors or the Ministry of Finance has been abolished. The finance directorates carry out cash control (checking availability of budget) and order payments directly to the bank. Banking for the state is outsourced to the private banking sector. Large payments have to be announced and agreed in advance by the Ministry of Finance for reasons of cash management (in order for the Ministry of Finance to clear the balance of the government accounts at the banks on a daily basis). The finance directorates send monthly execution reports to the Ministry of Finance. The Ministry of Finance checks these reports against the payment data that it receives from the banks.

The finance directorates of line ministries prepare their own annual accounts. The Ministry of Finance is responsible for the consolidation of the ministerial accounts and consolidating the State accounts.

Box 3. Key features of the budget process in the UK

The annual budgetary process is determined by an expenditure framework that is established at the occasion of a spending review. The framework can vary in length between two and four years. A new framework covering the budget years 2016/17 to 2019/20 has been put in place in early 2016.

The framework makes a distinction between spending that is subject to a Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). The DEL covers central government as a whole and is split in ministerial sub-ceilings. The DELs are set in terms of net expenditure (gross expenditure minus non-tax revenue). The aggregate DEL expenditure path is fixed in light of medium term macroeconomic forecasts. Since the spending review of 2010, the macroeconomic forecast is produced by the Office of Budget Responsibility (OBR), which is an independent forecasting institution that reports on the public finances. AME spending covers the entire public sector and is in principle not determined by binding limits. AME spending includes, among other things, social security spending flowing from entitlement laws, interest on public debt and spending of local government from local sources of revenue. The different treatment of DEL and AME was originally aimed to reflect the fact that AME spending is less controllable (e.g. demand driven and volatile). In addition, many areas of spending that are natural macroeconomic stabilisers are AME. However, in the current fiscal climate the importance of controlling AME is firmly recognised. Nowadays, line ministries have an annual total for AME just like DEL.

During the spending review DELs and AME targets are determined for the medium term after a negotiation process between Her Majesty's Treasury (HMT) and the line ministry in which all tradeoffs are considered.

DEL and AME targets are annually updated at so called fiscal events, generally twice a year at the occasion of the Budget submission to Parliament (in March) and at the occasion of the Autumn Statement (in November/December). At both occasions, reallocations between

Box 3. Key features of the budget process in the UK (cont.)

ministries are possible, as long as the aggregate DEL and AME targets are respected. Baseline updates (at the line item level) have to be submitted to the Treasury via an ICT system. The ICT system does not accept baseline updates in excess of an approved DEL.

Baseline updates for the budget year are submitted to Parliament in the Main Estimate and the Supplementary Estimate submissions. Parliament authorises spending by voting on an annual basis (referred to as “voted” expenditure) or by permanent statute that eliminates the need for annual voting (referred to as “non-voted expenditure”). Baseline updates must respect expenditures that are ring-fenced by HMT.

Contrary to the aims of trend based budgeting, in the last few years the aggregate DEL was revised several times in between spending reviews. This so-called “opening of the budget” was seen by line ministries as problematic because it disturbed their internal procedures and affected the relationship between HMT and their ministries. However, it was seen by HMT as necessary in the light of developing economic circumstances and political objectives.

During budget execution, commitments can be incurred and payments can be ordered by budget holders. HMT gives authority to the Permanent Secretary of a line ministry to serve as budget holder for the ministry. This authority can be delegated to Director Generals (DGs) and further down the line. All agency heads are also budget holders. Programmes of expenditure over delegated limits need to be approved by HMT. Further efficiency related controls have been operated by the Cabinet Office. HMT checks that the programmes of spending are Value for Money (VfM), have strategic fit and that they are affordable. All budget holders have an account with the Government Banking Service (GBS), which is held at the Bank of England. Budget holders send payment orders directly to the GBS. They report monthly to the Treasury about their cash needs.

The finance directorates of line ministries prepare annual accounts. HMT is responsible for the consolidation of the ministerial accounts and makes up the State accounts.

An important factor in this respect is the role of arm’s length agencies. The Dutch “agency movement” started in the 1990s.¹ It was directly inspired by the British initiative to establish “Next Step Agencies”. The idea was to push all policy execution, including its financial administration, out of the core ministries. This would make it possible to manage policy execution more efficiently, making use of management practices of the private sector. In addition it would lead to a lean and better co-ordinated core government, focusing on policy development and evaluation. The separation between policy development and execution that was envisioned in the agency initiative has been pursued in a more systematic way in the Netherlands than in the UK. With a few exceptions,² almost all policy execution in the Netherlands is currently concentrated in agencies.³ All agencies have their own financial administration units that report to the finance directorate of the ministry.

Furthermore, in the 1990s a large part of the financial administration in Dutch ministries has been devolved to units inside the sectoral divisions. These reforms have partly been rolled back in the 2000s as a consequence of the “compact government” reforms, but often not in the sense that the finance units of sectoral divisions have been re-integrated in the finance directorates, but rather in the sense that these units have been merged in a separate operational management unit outside the finance directorate. These operational management units are shared service centres and may have the form of

separate directorates for operational management inside the ministry (but outside the finance directorate) or of inter-ministerial agencies or units. In this way, sectoral divisions have sought to keep more distance from the finance directorate (their “internal ministry of finance”). Such directorates for operational management or agencies now serve as providers of financial services for sectoral divisions in most Dutch ministries.

A task that is traditionally carried out by the finance directorate of a line ministry in addition to that of financial administration is that of commitment and cash control. Commitment control amounts to the preventive checking of the compliance with legal rules, including the availability of budget, when a commitment is incurred. Cash control amounts to the preventive checking of compliance, including the availability of budget, when a payment order is given to a bank that holds a Treasury account. Furthermore, in many countries there are rules in place that require supplementary commitment and cash control by the Ministry of Finance, often subject to certain criteria such as commitments in certain policy areas, or cash payments over certain amounts. In countries where the *financial control model* applies, commitment and cash control by the finance directorate and the Ministry of Finance is sometimes wholly or partially abolished, since budget control may be deemed sufficient to ensure compliance.

Table 1 summarises the distinctive features of the conventional model and the *financial control models* of the financial function in central government. The financial control model includes both the case that financial administration is largely devolved to agencies, sectoral divisions and shared service units outside the finance directorate (the Dutch case) and the case that they are largely concentrated in the ministerial finance directorate (the British case).

Table 1. **Distinctive features of the conventional model and the financial control model of the financial function in line ministries**

	Conventional model	Financial control model
Financial administration	Task of finance directorate	Task of finance directorate. Partial devolution to sectoral divisions and agencies or to shared service units outside the finance directorate is possible
Commitment and cash control	Task of finance directorate and, subject to certain criteria, the Ministry of Finance	Task of sectoral divisions. No, or limited, commitment and cash control by the finance directorate or the Ministry of Finance is possible
Budget control	Task of line minister advised by sectoral divisions	Task of line minister advised by finance directorate
Fiscal co-ordination	Task of line minister advised by sectoral divisions	Task of line minister advised by finance directorate
Operational control	Task of Minister advised by sectoral divisions	Task of minister advised by finance directorate

3. Why is it important that the finance directorate functions as the line ministry’s own ministry of finance?

From the beginning of the 20th century, when a unified budget process started to emerge in Western countries, until the 1980s, the dynamics of the process was determined by a practice which Wildavsky has termed “incremental budgeting”. Its defining feature was that budgets for line ministries were decided in negotiations between “spenders” (the line ministries and their divisions) and “guardians” (the Ministry of Finance and its budget office). In these negotiations spenders asked for a more or less steady annual increase to their current budget, and guardians sought to mitigate these increases by a more or less steady subtraction from the submitted claims (Wildavsky 1964). The result was a steady increase of aggregate spending from year to year.⁴ The rate of this increase was generally

higher than the growth rate of GDP because in incremental practice current spending was taken for granted by both sides. Since current spending in real terms was not constant over time, but tended to grow in par with GDP due to indexation mechanisms and other dependencies embedded in current policies and legislation, incremental budgeting led to a gradual increase of public expenditure as a share of GDP.

In the aftermath of the oil crises of the 1970s and the stagflation of the early 1980s, many OECD countries wanted to stop the growth of expenditure (OECD 1987). However, this proved to be very difficult. Entitlement spending had reached a level of over half of central government expenditure in many countries. Indexation of wage and price levels led to increasing baselines of discretionary spending. Looking back at this episode in the USA Allen Schick wrote:

“The contemporary crisis in budgeting has both policy and procedural dimensions. The policy crisis pertains to the rigidity of federal expenditures, the massive and persistent deficits, the uncertain role of the budget in economic policy, and the gap between resources and demands. The procedural crisis is manifested in the collapse of established budget methods, the strained relationship between President and Congress, reliance on ad hoc arrangements to make the budget, and instability in budgetary rules.” (Schick 1990).

In several countries the aim to stop the growth of public expenditures was a component of a broader vision that sought to roll back the role of government in society through deregulation, privatisation, outsourcing and tax relief. The debate on the legacy of this wave of reforms is still on. Opinions differ on what has been achieved and how the achievements should be appraised. However, regardless of how one stands in this debate, it is clear that at least one objective has been achieved, namely to stop the relative growth of public expenditure. During the 1980s the growth of public expenditures as share of GDP has come to a halt. For most OECD countries this has happened at a level between 40% and 50% of GDP (Tanzi, Schuknecht 2000). Simultaneously, something fundamental has changed in the dynamics of the budgetary process in the countries where this occurred. As a consequence current spending was no longer taken for granted, as it had always been under incremental budgeting. New initiatives were launched to investigate the effectiveness and efficiency of existing spending programmes, such as the “Rayner scrutinies” in the UK, the Grace Commission in the US, and the spending reviews under the “Reconsideration Procedure” in the Netherlands. Simultaneously, and crucially,⁵ a new practice in the annual process of budget preparation has gained foothold. This practice is known as “top-down budgeting”. It means that budget preparation starts with the establishment of a binding constraint on aggregate spending. This implies that the negotiations between the line ministries and the Ministry of Finance henceforth focus on the allocation of available resources among ministerial expenditure envelopes subject to this constraint, and no longer on the size of the ministerial increments. This practice is an essential condition for the inclusion of current expenditure in budgetary negotiations and stands in contrast to the prevailing practice of incremental budgeting when current spending was taken for granted.

The expression “top down budgeting” has given rise to various misunderstandings.⁶ The first is that it means that line ministries are not allowed to put forward budget requests before the Ministry of Finance has announced the caps. This would not be rational. The budget process must allow the opportunity for trade-offs between spending programmes in different ministerial portfolios, as well as for trade-offs between spending programmes and tax measures. It also ought to provide line ministries with a fair hearing

where they can argue their case. Furthermore, it would be practically impossible to deny them such opportunity. Attempts in this direction simply push the process behind the scenes and lead to agreements without the benefits of a structured process. The essence of top-down budgeting is that the decisions about aggregate spending and ministerial caps are taken simultaneously, at a single occasion, allowing all potential trade-offs. This requires that all relevant information can be considered. Only after these decisions are taken can aggregate spending and ministerial caps be binding and irrevocable.

A second misunderstanding is that top-down budgeting implies that sectoral policy making must be forced into the requirements of the annual budget cycle. This could imply for instance that certain policy decisions with financial implications must be postponed until they can be considered in the annual deliberations on the budget. In practice, of course, this has not been the case. Sectoral policies have their own cycle of development, implementation, evaluation and revision. The length of these cycles depends on the nature of the policies. For example, the procurement of weapons systems and infrastructure construction have long multi-year cycles. Other policies, such as education or health care have shorter cycles. Furthermore, many sectoral policies are decided on an *ad hoc* basis, in response to social or economic events, for instance internal security in case of a terrorist attack. This means that budgets need to be flexible and adaptable at any moment of the year regardless the annual budget cycle. Ministers must be able to reallocate resources within their portfolio at any moment by reordering of baselines, and ultimately by reordering individual caps within the overall cap to be brokered by the Minister of Finance. Attempts to introduce rules that are not adapted to these demands of the sectoral policy process are bound to fail.

Some countries have gone further than others in the direction of top-down budgeting by fixing the caps for aggregate spending for more than a single year. In 1990 the US adopted the Budget Enforcement Act⁷ that established five-year rolling caps⁸ for discretionary spending as well as a mechanism to control mandatory spending.⁹ In 1994 The Dutch Government introduced trend based budgeting, that provided for four-year periodical caps for aggregate spending, social security funds and ministries. In 1996 the Swedish Government introduced a procedure with four-year rolling caps for aggregate spending in some 20-25 policy areas. In 1998, the UK started with three-year periodical caps (with a non-binding third year). France has been working since 2009 with three year periodical caps.¹⁰

Top-down budgeting has brought a fundamental shift in the position of the finance function in line ministries. A system of ministerial caps is only feasible if line ministries are capable of implementing them. Obviously, this task is more demanding if the ministerial caps include mandatory spending as is the case in Sweden and the Netherlands, than if mandatory spending is excluded as in the UK and France, and as was the case in the US under the Budget Enforcement Act. On the other hand, the differences should not be exaggerated. For instance, in the UK the line ministries nowadays feel similarly responsible for the control of AME spending (which largely corresponds to mandatory or entitlement spending) as for DEL spending. On the other hand, the Netherlands and Sweden allow reallocation between the sectoral caps as long as the overall cap for aggregate spending is respected. This escape route provides flexibility and can be seen as recognition that mandatory spending cannot always be sufficiently controlled to prevent overspending.

In order for line ministries to be effective, finance directorates must become stronger and in particular take on the tasks of *budget control*, *fiscal co-ordination* and *operational control*.

They must enhance their capability to ensure compliance with the annual or multi-annual caps that are set for them under all circumstances. If one is to devolve these areas from the Ministry of Finance, it is essential to have someone to devolve to. Without strong finance directorates, an expenditure framework based on ministerial caps is not going to work.

Whereas all mentioned tasks support the macroeconomic function of the budget for the government as a whole, the tasks of *fiscal co-ordination* and *operational control* are also valuable for their own sake. Strong fiscal co-ordination inside the line ministry makes it possible for the ministry to react rapidly to changing economic or social circumstances, to new insights from policy evaluation and to shifting political preferences by reallocation of financial resources. In this way it contributes to the smooth functioning of the allocative function of the budget at the level of the ministry. It is often assumed that reallocation is by definition a task of the Ministry of Finance, but this is only partly true. Obviously, there is a task for the central budget office to broker inter-ministerial reallocations, or reallocations that are driven from the centre of government. But these are by no means all reallocations. Allen Schick has noted:

“The budget office operates at a disadvantage vis-à-vis the spending departments when it aggressively seeks to reallocate resources. It may lack sufficient programme information and political support to do the job. Departments know a lot more about their programmes – what works and what not – than does the budget office. Departments also know a lot more about the political risks of changing programmes and policies. This asymmetry is due to the high cost of obtaining programme and political information, as well as to the understandable reluctance of departments to cast their preferred programmes in an unfavourable light. In other words, the budget office is beholden to the spending departments for much of the information it needs on how well programmes are working” (Schick 2001).

With enough line ministries developing a strong capability for *fiscal co-ordination*, the budget allocative function for the government as a whole will be strengthened as well.

Similarly, strong *operational control* inside the line ministry is valuable for its own sake, since it allows the ministry to improve the effectiveness and efficiency of its operations and save resources. Moreover, the line ministry has better insight in the causes of inefficiency than the Ministry of Finance. The cumulative effect of such a stronger capability in line ministries will strengthen the operational control function of the budget for the government as a whole.

In this section the argument in favour of a stronger role for the finance directorate of the line ministry was based on the improvement that can be expected from this reform on the functions of the budget (macroeconomic, allocative, operational). The division of tasks between the Ministry of Finance and the line ministries can also be approached from the perspective of risk management: which risks can be borne by the line ministries and which should be borne by the government as a whole through the co-ordinating role of the ministry of Finance. In this approach, devolution of authority amounts to a reduction of moral hazard, that is to say improved efforts to prevent the realisation of risk. However, not all risks can be devolved, for instance the risk of a macroeconomic downturn. This is recognised in the flexibility of ministerial envelopes, even under a procedure of binding aggregate caps.

4. Procedural conditions for the financial control model

In order for the finance directorate of a line ministry to become stronger, it must take on the tasks of *budget control*, *fiscal co-ordination* and *operational control*. In order to make this

possible, budget procedures have to be reformed. Some of these reforms require legislation, others require guidance from the Ministry of Finance and still others can be carried out by the line ministries on their own initiative. This section enumerates a number of measures to strengthen the position of the finance directorate of a line ministry.

4.1. Establishing ministerial caps at the start of budget preparation

In order to maintain budgetary discipline a finance directorate needs a binding ministerial cap for the medium term.¹¹ The cap has to be established at the start of the annual budget process, as part of a medium term expenditure framework that includes an aggregate cap for the central government as a whole composed of individual ministerial caps. Since a medium term cap covers several years, this comes down to updating the numbers for future years that were established the previous year. In some OECD countries the ministerial caps are based on a binding medium term cap for aggregate spending that cannot be changed from year to year.¹² However, even in these countries annual updates of ministerial caps are possible and do occur. They generally lead to reallocations between ministries under the fixed aggregate cap.

The annual decision about the (update of the) ministerial caps needs to allow all manners of trade-offs. In order to make this possible all relevant information needs to be available, including updated baselines on existing programmes, an updated economic forecast¹³ and requests of line ministries concerning new policy initiatives.¹⁴ If there is not enough time for a thorough preparation of the decision on the caps, this may imply that the entire calendar must be moved forwards. If the budget year coincides with the calendar year and if the single decision moment for ministerial caps is scheduled for May, then updated baselines, a new macroeconomic forecast and requests of line ministries must be available at the latest in April. Furthermore, line ministries must have an opportunity to discuss their proposals with the Ministry of Finance before the single decision moment.

Moving forward the budget calendar is not an easy reform. Politicians tend to postpone difficult decisions hoping for the improvement of the fiscal situation. Sometimes they seek to legitimise postponement with the argument that postponement will make it possible to decide on the basis of more accurate information about future developments. This is generally not a valid argument. Forecasts are always uncertain. Moving the budget calendar a few months forward will not likely make any substantial difference in the accuracy of projections.

Moving the budget calendar forward is in line with European Union requirements for the Euro group. The regulations of the “European Semester” prescribe that the main outlines of the budget must be reported to the European Commission in Stability and Growth programmes in April. The EU regulations require the submission of the best expenditure forecasts available at the reporting date. Moving the budget calendar forward would enhance the quality of these reports.¹⁵

Moving the budget calendar forward generally does not require legislation. Even if the Budget Code (the law on the budget procedure) prescribes dates for certain stages of the budget process, these dates are usually ultimate dates, and do not prohibit the Ministry of Finance to prescribe earlier dates in the annual guidance for the budget process. Still it may be helpful if this reform is supported by legislation, especially if the Budget Code does already contain dates. This is especially true in countries with a legalistic tradition of public administration.

4.2. Caps are binding

It is essential for budgetary discipline (and for top-down budgeting) that the ministerial caps are binding once they have been established. For this purpose, it is important that the finance directorate closely monitors the development of expenditure in all programmes of the ministry in order to take actions as necessary in order to rectify adverse developments. This does not only concern budget execution during the current year, but also new developments in future years in which the cap applies. As far as budgetary discipline is concerned, there is no difference between budget preparation and budget execution. Any expected overspending on a baseline needs to trigger action from the finance directorate. This action must consist in the first instance of consultation with the relevant sectoral divisions about necessary policy adjustments. The earlier a problem is identified, and the earlier the finance directorate holds discussions with the relevant sectoral divisions, the greater the likelihood that effective remedial action can be put into action.

However, it is possible that policy adjustment is not possible on short notice, for instance in the case of overspending on an entitlement programme, or if policy adjustment does not fully solve the problem, especially in the short run (in the current or upcoming budget year). In that case baselines have to be adjusted. A regular schedule of formal baseline updating is helpful in this respect. Practices differ between countries. In the UK baselines are formally updated twice per year, in Scandinavian countries three or four times per year, in the Netherlands seven times per year. Regular formal updating of baselines provides the finance directorate of the line ministry with an instrument to maintain budgetary discipline and it provides the Ministry of Finance with an instrument to monitor and supervise the ministerial actions in this respect.

In the Netherlands, the process of baseline updating serves as an instrument of budgetary discipline. For that purpose, the Ministry of Finance has developed a set of “rules of budgetary discipline.” At the start of every cabinet period these rules are explicitly agreed by the Council of Ministers. The most important rule is that every increase of a baseline in any year of the medium term framework has to be fully compensated by one or more decreases in other baselines. A second important rule is that any increase of a baseline due to a new spending initiative (an “autonomous” increase) has to be compensated by a savings measure (an “autonomous” decrease). It is not allowed that autonomous increases are compensated by windfalls (“exogenous” decreases). The latter can only be used for the compensation of setbacks (“exogenous” increases). This rule requires that all baseline changes are categorised as autonomous or exogenous, which requires additional rules of a second order. Further rules are required to solve technical questions in specific cases, for instance concerning transfers of programmes between ministries or compensation of an expenditure increase by a non-tax revenue. Baseline updating is conducted via the Information and Communication Technology (ICT) system used for budget preparation. At every update the Ministry of Finance invites the line ministries to submit the changes in their baselines while respecting the rules of budgetary discipline. The expenditure divisions of the Ministry of Finance check each change against the rules. After approval, the updates become the new baselines. Differences of opinion about the application of the rules are decided in a similar manner as general budget negotiations. Baseline updates affecting a budget that has already been approved by Parliament have to be submitted to Parliament in supplementary budget laws.

A ministerial cap can only be maintained with an active finance directorate, but the Ministry of Finance also plays a primary role. If a ministerial cap set at the start of budget

preparation appears to be negotiable after all, the line ministry and its finance directorate will immediately shift their focus towards what is necessary to raise the cap, rather than to what is necessary to comply with it. Any internal exploration of savings options will be avoided. The longer the time period that these negotiations are allowed to continue, the less effort the finance directorate will devote to internal savings (and reallocations). If the negotiation process continues until shortly before the submission of the budget to Parliament, the attention for internal savings will almost disappear.

4.3. All caps under ministerial responsibility

In some countries there are caps under the aggregate cap, that are not part of ministerial caps (for instance in Slovenia, see Box 1). These caps are negotiated directly between the agencies to which they apply and the Ministry of Finance. This arrangement has two disadvantages from the perspective of budgetary discipline. First, the larger the number of caps under the aggregate cap, the smaller each cap and the smaller the flexibility to reallocate resources and to provide for compensation of overspending. Second, it is important that each cap is supervised by a politically accountable official.

It is also important that caps do not cross ministerial boundaries. Having two or more ministers responsible for a part of the same sectoral cap is highly problematic in both political and practical terms. Whatever the problems of the existing boundaries between ministries, it is crucial that the ministerial caps follow them. If something has to change in the machinery of government, ministerial boundaries have to be changed first. The budgetary caps should respect current institutional boundaries.

It is less problematic if a minister is responsible for more than one cap, for instance if the minister of social affairs is responsible for a separate social security cap, next to the ministerial cap, as long as each cap is strictly limited to the expenditures for which the minister is accountable. There is still the disadvantage that two or more caps in a ministry diminish flexibility, but this problem is less grave than two ministers responsible for (parts of) the same cap.

4.4. Sectoral divisions and agencies are budget holders

For the finance directorate to play its role as an effective *fiscal co-ordinator*, it is important that all sectoral divisions and agencies are recognised as budget holders. This implies that they can incur commitments and order payments and that they are accountable for the budget from which these payments are made. In order for the finance directorate to play a co-ordinating role, it is important that the responsibility of the sectoral divisions and the agencies for their own budget is formalised. This may emanate from the minister, if the Budget Code so prescribes, or from another official that the Budget Code identifies as the accounting officer for the ministry. Only if all sectoral divisions and agencies have their own budgets and are recognised as budget holders, can the finance directorate play its role as a neutral and objective advisor of its minister.

It is essential that the finance directorate serves as the interface with the Ministry of Finance in the areas of budget preparation, execution and accounting, but it is not necessary that all technical administrative work be performed in the directorate. If it is ensured that the directorate is exclusively responsible for the submission of official budget requests (and reallocations) to the Ministry of Finance, there is no objection against the devolution of financial administration to the budget holders.

4.5. Institutionalisation of programme evaluation

Programme evaluation is a necessary part of the policy cycle. Every programme that is implemented and that has been in force for a sufficient period to assess its effects, should at some stage be evaluated. It is important that at this occasion fundamental questions be asked that go beyond the outputs and results. Such questions include: Why is this programme a task of central government, rather than of local government or the market? What does each policy instrument cost? What alternative policy instruments could be used to achieve the same programme objectives? What would happen if the policy instrument or the entire programme would be abolished? What are the effects on objectives? What are the effects on savings? The finance director of the line ministry must ensure that all programmes of the ministry are evaluated at the right time. Programmes that experience difficulties (doubtful results, overspending) might likely need priority attention.

It is sometimes argued that evaluation cannot be critical if it is initiated and funded by the line ministry, since this ministry has no interest in critical reports about its own programmes. This is true if evaluations are imposed upon the ministry by external regulations, but it is not true if evaluations are used by the ministry itself to improve its policies and to make room for new policies (reallocations). The objective of evaluations is different than that of spending reviews. Spending reviews are generally an instrument of the Ministry of Finance in order to produce savings proposals of good quality. Evaluations are an instrument of the line ministry to improve policy and to make room for new policy. This does not mean that the ministry of Finance should abstain from involvement. On the contrary, the Ministry of Finance can play a useful supportive role by promulgating general rules about evaluation. An example is the Green Book that serves as a guideline for evaluation in the UK government. Such rules provide a quality guarantee and make it easier to conduct evaluation because they eliminate the need to invent such frameworks anew at each occasion that an evaluation is initiated.

4.6. Ownership role of agencies is developed

In OECD countries, policy execution increasingly takes place in agencies at arm's length of the core ministry. The separation of agencies from the core ministries can have beneficial effects on the quality of services, the job satisfaction of personnel and the efficiency of the core government. But there is also an increasing concern in all countries where this development takes place about the capability of the line ministries to steer and control the agencies. Several OECD countries have addressed this issue and have come to the conclusion that the solution should be sought in the professionalization of the ownership role of the ministries.¹⁶

Generally arm's length agencies operate in a playing field with three types of actors. The first are the agencies themselves. The second are the sectoral divisions in the core ministries that have developed the policies that the agencies are executing. The third are the units in the core ministries that are responsible for the effective and efficient operation of the agencies. The latter role is sometimes denoted as the "ownership role". In several OECD countries that have carried out reforms in this area, the tendency is that the steering and financing of agencies are separated.¹⁷ Steering requires programme expertise and can best be done by the sectoral divisions of the line ministry. Financing requires operational management expertise and can best be done by the Finance Directorate of the line ministry. This implies that the Finance Directorate must take on the "ownership role" on behalf of the ministry and ensure that agencies are rightly equipped to carry out their tasks

in an effective way, but also that they operate in an efficient way and don't waste resources. The development of this ownership role is in the first place a responsibility of the line ministries themselves, but there is also a responsibility of the Ministry of Finance to guide and support this reform.

4.5. Co-ordination with the Ministry of Finance

The finance directorate of the line ministry can only serve as a guardian of budgetary discipline within the line ministry if it co-operates closely with the Ministry of Finance. For that purpose it is important that there is a relation of mutual trust between the finance directorate of the line ministry and the Ministry of Finance.

An effective way to build trust is to organise a periodical meeting with all finance directors of line ministries where information can be exchanged. The Ministry of Finance can provide information about its latest insights in the current and future development of expenditures, revenues and the deficit and discuss the need for overall savings measures and opportunities for new spending initiatives. These meetings can also be used to announce and explain the stages in the annual budget process. Once a practice of periodical meetings is established, budget circulars from the Ministry of Finance will not come as a surprise. The budget director of the Minister of Finance can act as chairperson in these meetings. In this quality, the budget director should see to it that the meetings are exclusively used for the exchange of information. The aim is not to negotiate about budgets.

5. Conclusion

The individual measures outlined in the previous sections generally do not require major legislative reforms. Most are quite simple measures that do not require much time to prepare as such. The only exception being the moving forward of the budget calendar, which in many countries will be facilitated by an amendment to the Budget Code. However, the transition to the *financial control model* must be seen as a major institutional reform that requires an *integrated package* of measures. In this light, it is important that policy makers – both politicians and senior civil servants – thoroughly discuss the merits of the transition before they embark on these reforms. Given broad political agreement on the transition, the implementation of the separate measures will be greatly facilitated.

The role of the head of the finance directorate in a line ministry fundamentally changes with the implementation of the financial control model. This may pose challenges. The holder of the position quite correctly remains an official of the line ministry, but her/his new responsibilities are in many respects comparable to those of the Ministry of Finance in the conventional model. The head of the finance directorate needs to command the confidence of both the line minister and the Ministry of Finance. In the Netherlands, this requirement is reflected in a provision of the Budget Code that provides for a right of approval of the Minister of Finance for the appointment of the head of a finance directorate of a line ministry. Another indication about the nature of the position in the Netherlands is that a substantial number of them (close to half) have previously worked in the Ministry of Finance. It seems plausible that these officials were attractive candidates for their posts because they had the confidence of their former employer. Furthermore, in the financial control model, they must possess the necessary budgetary expertise and be able to serve as fair and objective mediators between the different sectoral interests of the ministry. All together this may imply that line ministries become more

constrained in their choice of heads of finance directorates. This should be considered as well at the onset of the reform process.

Finally, an important challenge that countries may face in moving in the direction of the financial control model is the potential resistance in the line ministries themselves. They may ask what they gain by this reform. It is necessary to highlight their greater sense of ownership of action. The commitment of the Ministry of Finance to adjust its procedures concomitantly is of paramount importance. As budgets of line ministers become more flexible within an overall expenditure cap, it becomes less complicated to reallocate resources and implement new policies reflecting a minister's political priorities. A sufficient degree of political understanding and support is essential for these reforms to succeed.

Notes

1. The first four arm's length agencies were established in 1994.
2. The most important exception is the Inland Revenue Service (around 30 000 employees). Currently, the share of core ministries in administrative central government employment is 43.2 %. When the Inland Revenue Service would become an agency this share would decrease to 20.8 % (OECD 2015). Furthermore, there is currently a lower limit for the turnover in place of EUR 50 million. Smaller executive units must be merged with larger agencies or remain inside the core ministries.
3. The polar case is Sweden. In Sweden all policy execution is devolved to agencies by a constitutional provision that forbids the government to apply the law in individual cases. This leads to a share of core ministries in administrative central government employment of 4.4 % (OECD 2015).
4. The original theory led to a linear, programme specific expenditure path (the basic incremental model). Later the theory was complicated by allowing for occasional shifts in the growth parameters (the extended incremental model). For an overview of empirical work on the basis of incrementalistic model see Wildavsky (1975).
5. An earlier attempt to integrate the scrutiny of existing expenditures in the annual budget process was the Zero-Based-Budgeting initiative of the Carter administration. This has remained a one-time attempt, probably because it was not accompanied by a procedural reform to the effect of top-down budgeting (see, for instance, the chapters on zero-base-budgeting in Hyde, Shafritz 1978).
6. The same is true, in the opposite way, for the term "bottom-up budgeting" that is sometimes used for incremental practices.
7. The Budget Enforcement Act replaced the Balanced Budget and Emergency Deficit Control Act (also known as Gramm-Rudman-Hollings Act) of 1985 (extended in 1987) that put a cap on the deficit (not on expenditures) over a five year period (until it would be reduced to zero). It provided that appropriations would be cut across the board if the deficit caps were not respected ("sequestration procedures"). Sequestration procedures were taken over in the Budget Enforcement Act.
8. A rolling cap is extended every year with a new out-year. It stands in opposition to a periodical cap that covers a definite period. The Netherlands and the UK use periodical caps.
9. The so-called PAYGO mechanism required that the structural effects of new legislation on the overall balance should be neutral. The Budget Enforcement Act expired in 2002 and was not replaced by a comparable law.
10. The caps are established in a "Loi de programmation des finances publiques".
11. A cap consists of a series of numbers indicating maximal expenditures in subsequent years.
12. Including France, the Netherlands, Sweden, the UK. See section 3.
13. If the ministerial caps are based on a fixed aggregate cap for the medium term, the macroeconomic forecast is not necessary for expenditure policy (the aggregate expenditure path is fixed), but it may be needed for tax and debt policy.
14. In principle information about tax options and savings options (spending reviews) is also required, but often this information is not produced every year. In countries with periodical expenditure frameworks, this information is usually made available at the occasion of renewal of the framework.

15. For the European Semester, the EU does not require the submission of new expenditure frameworks but countries that decide on frameworks in the spring could consider to do it timely enough to submit this information to the EU (in April).
16. For instance: France and the Netherlands (OECD 2015, p. 100 and 320-24).
17. This tendency is inspired by the example of Sweden. See for the Swedish example OECD (2015).

Bibliography

- Allen, R. et al. (2015), "The Evolving Functions and Organisation of Finance Ministries", *IMF Working Paper* 15/232, Washington, IMF.
- Hyde, A.C. and J.M. Shafritz eds. (1978), *Government Budgeting: Theory, Process, Politics*, Oak Park, Moore Publishing Company.
- OECD (1987), *The Control and Management of Government Expenditure*, Paris, OECD Publishing.
- OECD (2015), *Building on Basics: Value for money in government*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264235052-en>.
- Osborne, D. and T. Gaebler (1992), *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*, Reading, Addison Wesley.
- Schick, A. (1990), *The Capacity to Budget*, Washington, The Urban Institute Press.
- Schick, A. (2001), "The Changing Role of the Central Budget Office", *OECD Journal on Budgeting*, Vol. 1/1, pp 9-26. OECD Publishing, Paris, <http://dx.doi.org/10.1787/budget-v1-art3-en>.
- Tanzi, V. and L. Schuknecht (2000), *Public Spending in the 20th Century. A Global Perspective*, Cambridge, Cambridge University Press.
- Wildavsky, A. (1964), *The Politics of the Budgetary Process*, Boston, Little Brown.
- Wildavsky, A. (1975), *Budgeting: A Comparative Theory of the Budgetary Process*, Boston, Little Brown.

Spending reviews in Ireland – Learning from experience

by
Fiachra Kennedy and John Howlin*

This article examines the Irish experience of spending reviews and seeks to identify key lessons that should enhance the effectiveness of this process both in Ireland and in other OECD countries. Since the beginning of the economic and financial crisis, spending reviews have played an important role in Ireland's efforts to restore expenditure policy to a more sustainable footing. However, the purpose of future reviews will move from improving the deficit position to ensuring all expenditure is considered when Government is making budget decisions. The purpose of spending reviews is to increase the fiscal space available to government for new, high priority, policies. By systematically examining baseline expenditure using available evidence and data, the increasing tendency to focus only on incremental improvements in expenditure can be countered. Spending reviews should be used to further embed the principles of expenditure efficiency and effectiveness into the wider budget process. This can be facilitated through extending the availability of relevant evaluations and performance information and ensuring such evaluations become central to the budgetary process.

JEL classification: H50, H60, H83

Key words: spending reviews, programme evaluations, performance budgeting, budget reform, performance information, efficiency, effectiveness.

* Dr Fiachra Kennedy works in the Department of Public Expenditure & Reform and has worked in the areas of spending reviews, evaluation and performance budgeting. John Howlin works in the Department of Public Expenditure and Reform in the central expenditure policy section and has previously worked as an economist in the Irish Fiscal Advisory Council. The authors would like to acknowledge the contribution of Ms Emmanuelle Darmon to the development of this paper while she was on secondment as part of the Robert Bosch Stiftung Bellevue Programme. The views presented in this paper are those of the authors alone and do not represent the official views of the Department of Public Expenditure & Reform or the Minister for Public Expenditure & Reform. A version of this paper was originally published as an Irish Government Economic and Evaluation Service staff paper in October 2016. Material included in this paper was the subject of presentations by Ireland to the OECD's SBO Network on Performance and Results in November 2014 and November 2015.

1. Introduction

The fiscal and economic landscape in Ireland has changed substantially over the last decade or so. Since the most recent Comprehensive Review of Expenditure in 2014, the recovery in the economy and in public revenues has meant that moderate rates of expenditure growth over the medium-term are consistent with sustainable public finances under the fiscal rules. However, increasing public service demand pressures – arising from issues such as the cost of demographic changes – will mean managing expenditure, even within this increased scope, is likely to prove challenging. The impact of service pressures is exacerbated by the general tendency for public spending internationally to rise as a share of national income.¹ To ensure that fiscal space is available to Government when considering new policies there must be a mechanism in place to identify additional fiscal space within the existing expenditure base, rather than relying solely on the scope for incremental expenditure increases permitted by underlying economic growth.

Spending reviews have been conducted in Ireland on a number of occasions in the recent past to identify savings options for Government. These savings options support better policy choices in the wider context of the budgetary process. The focus of this paper is to assess Ireland's approach to spending reviews against the standard international framework and to identify areas where the process may need to be recalibrated and intensified for the post-crisis period.

Section 2 sets out the rationale and framework for spending reviews. While there is no one-size-fits-all methodology for implementing spending reviews, by leveraging cross-country analysis conducted mainly by the OECD and the EU Commission it is possible to identify a core process and key characteristics that should be considered when developing an approach. These core processes and characteristics are discussed in Section 3. Section 4 gives an overview of the recent Irish experience by reference to these core characteristics. The final section sets out some broad lessons for future reviews in Ireland.

2. Rationale for spending reviews

The purpose of a spending review is to increase the fiscal space available to government for new, higher priority policies. This is achieved by systematically examining the scope for savings within baseline expenditure using available evidence and data and consequently by identifying spending programmes that are inefficient or ineffective in addressing priority economic or social goals. This approach counters the increasing tendency to focus only on incremental improvements in expenditure as part of the budgetary process.

While spending reviews were conducted in a number of countries prior to the global financial crisis, their use became widespread in the period during the crisis.² As overall resources become more constrained through, for example, increasing demographic-related costs and the prevalence of fiscal rules, the “fiscal space” available to governments for new, higher priority policy measures is increasingly limited.³ Spending reviews generally form

part of the suite of budgetary reforms introduced to counter the inherently incremental nature of multi-annual public expenditure management. Such reviews are also seen as a useful means of regularly realigning spending with government policy priorities by identifying ineffective or low priority programmes.

While a range of different approaches tailored to different requirements have been implemented internationally, there are some core principles in common. The review of baseline spending (i.e. the whole stock of government spending) may focus on increasing the efficiency of existing public service outputs or reducing resources, and consequently outputs, in a particular area of spending. The former – referred to as an “efficiency”, “tactical” or “operational” review – examines the scope for cost savings while maintaining services through increased efficiency, modernisation, reform and innovation. The savings from this approach may take more time to deliver as processes are changed and may also involve some initial costs (“spend to save”). The latter, “strategic”, review involves a strategic assessment of spending and policies to reduce services or transfers in selected areas based on particular criteria, usually by identifying ineffective and/or lower priority areas of spending. Generally, spending reviews are based on some combination of these two approaches

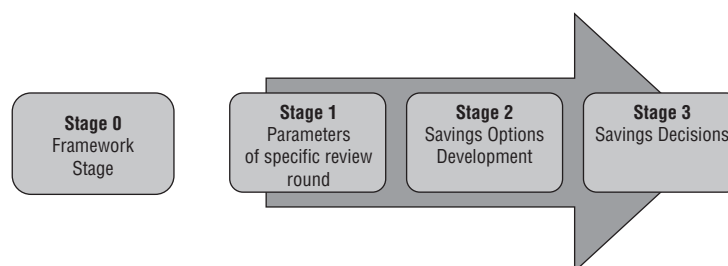
While spending reviews have been used to identify areas where increased resources are required, this should be viewed as a separate, parallel, task to avoid weakening the purpose of a spending review. The key objective of spending reviews is to create additional fiscal space by examining base expenditure and this should be strictly maintained to keep the review process discrete and focussed. The options generated by these reviews can then feed into the broader budgetary process. The simultaneous consideration of new policy proposals, including extending existing policies, and options identified through the review process should be conducted under the normal budgetary process. These dual processes should result in a better alignment of resource allocation with government strategies and priority policy areas and gives a clearer sense of the trade-offs involved to fund new policies.

3. Main features of spending reviews

A spending review can be broadly split into “design” and “conduct” phases. The design phase determines the high level framework that guides the review and does not necessarily change between reviews. The “conduct” phase is specific to each review round and operationalises framework design decisions on the scope, savings, roles and responsibilities and role of information and evaluation.

Having considered the international experience in conducting spending reviews, the OECD (2013) identifies four stages for spending reviews (Figure 1).⁴

Figure 1. **Stages of a Spending Review**



Source: *Spending Reviews*, Working Party of Senior Budget Officials (OECD, 2013).

By identifying the underlying common structure of spending reviews the key choices facing countries are clearer. A clear map of these choices across all stages of the review allows for consistent refinements to be made at each stage if changed circumstances require a different review approach. Furthermore, clearly identifying the requirements at each stage also facilitates planning, where considerations at different stages can influence choices either earlier or later in the process. This ensures that, for any given review round, a consistent set of expectations and objectives are applied.

The initial stage – identified as the Framework Stage – is the point at which the key, high level design features of the review are determined, e.g. the scope of the review, role and responsibilities of key stakeholders, timetable, methodology and deliverables. Having established a broad approach to reviewing expenditure, the majority of countries generally avoid re-visiting the structure of the review for each review round. Having set out a high level plan for the review, this initial stage also includes a commitment where a clear decision on proceeding with the review is made at the political level (EU Commission, 2014).⁵ Highlighting the decision to undertake the review in this manner emphasises the political commitment, and clear communication of such, necessary for a successful review process. The approach to integrating the review process and results into the regular budgetary and/or medium-term expenditure framework processes can also be determined.

Having set out the overall design of the process, the following three stages collectively relate to the “conduct” of the review, and set out the operation of a particular review round. While the Framework stage determines the organisational parameters that must be considered, the following stage sets the specific parameter values or requirements for the particular review round in question, e.g. the level of savings options to be identified for that particular spending review round.

Having set the round-specific parameter values, “Stage 2” is the point in the process where the review teams evaluate programmes, processes and/or institutions in line with the parameters set at the previous stage to identify a coherent list of savings options. This stage can be further sub-divided into three separate steps (EU Commission, 2014). The “diagnosis” step maps out the main characteristics of various expenditure categories (outputs, objectives, target population, drivers etc.). This is an important step as savings potential is not necessarily linked to the respective share of overall spending and a below average spend should not exclude an area from review. Existing, relevant analysis should be leveraged to facilitate the identification of spending areas to be assessed in detail for savings. The “formulation of options” step identifies the impact of specific options proposed for a particular area on savings and policy impacts. A “feasibility” assessment, including the cost of implementation, risks, time horizon for implementation, spillover effects, etc. should then be undertaken to produce an implementation roadmap for consideration. Following this analysis review teams prepare a package of savings options setting out the full implications of proposed policy decisions.

Stage three is the point at which the savings options are presented to decision makers. The choice of final decision makers should be decided at the design stage. Ultimately decisions usually rest at the political level and typically the executive. Decision makers can vary between processes and indeed within processes, as decisions for a particular ministry are normally taken with the agreement of the relevant spending Minister. Decisions related to purely efficiency savings, where outputs are unaffected, may be delegated to official level. All analysis relating to savings options should be made available to decision makers.⁶

The EU Commission (2014) also include a final *ex post* evaluation of the review process against savings targets and the initial strategic mandate as part of the review process.

The following features should be considered at the framework design stage of a spending review, and will have implications for the operation of the review through its remaining stages.

3.1. Scope and coverage

The scope and coverage of the review area are key aspects that should be clearly determined at the initial framework design stage. The balance between the efficiency and strategic review elements should be clearly determined at the initial framework design stage. The mix adopted can be guided by the likely scale of savings options to be delivered. Efficiency reviews alone – focussing on mechanisms to reduce costs while maintaining outputs – typically deliver lower levels of savings than strategic reviews, which also identify areas for cost reductions through reducing outputs – or some combination of the two.⁷

A further consideration is the type of expenditure to be covered by the review as even the reviews termed “comprehensive” cannot review all expenditure by government in a single review round. A comprehensive review can be seen as one that is not limited by any *ex ante* list of review topics. The review covers all relevant institutions and review teams identify the most relevant review topics to deliver savings, whether programmatic, process or agency. This approach can be useful to identify significant savings options in the relatively limited timeframe of a single review round. A “selective” review is limited in scope to a predefined range of topics determined at the design stage. The scope of “selective” reviews can be broadened by planning to review different areas of spending over a number of consecutive review rounds. Programme or process reviews may be agency specific or horizontal, i.e. examining a group of related programmes across two or more agencies. The selection of review topics can be decided by either central decision makers or by review teams based on *ex ante* perceived probability of identifying significant savings. An alternative approach is to create a rolling review cycle that evaluates all expenditure over a number of review rounds.

It is important to stress that spending reviews, however intensive and comprehensive, cannot be the sole tool used by government to achieve greater control over or to reduce government expenditure. Public service pay agreements, public service and industry contracts, investment reviews, and other such mechanisms can operate in parallel to spending reviews while creating fiscal space and leading to more efficient and effective spending outcomes.

3.2. Setting of savings target

Having considered the scope, or “width”, of the review, consideration should also be given to its “depth”. The scale of the savings should be calibrated to the government’s budgetary objectives, whether annual or multi-annual in nature. Returning public finances to more sustainable levels over the crisis period necessitated considerable consolidation in most countries where reviews were undertaken. However, the scale of options sought in a review can be considerably smaller in economic and fiscal circumstances where the focus is on creating fiscal space for new policy proposals. Having established whether targets will be set in the design stage, the annual or multi-annual targets for savings options should be established in the parameter setting stage. The overall target can be determined based on

an analysis of fiscal policy, fiscal rules, the ongoing costs of existing policies and the costs of new policies proposed by government. This overall target for savings options can then be used to set minimum targets for ministries. An alternative, more “bottom-up”, approach is for review teams to propose savings options without recourse to top-down targets. The scale of these proposals may be subject to challenge by the central review unit (Section 3.3).

It is generally seen as beneficial to set savings targets or ceilings for each area of spending being reviewed. This is the case even if these targets or ceilings are indicative in nature as the ceilings will ultimately be set by government as part of the decision making process. These targets act as a focus for review teams and maintain the focus on identifying savings.⁸

3.3. Roles and responsibilities of key stakeholders

While different countries have different approaches to how savings decisions are taken at the political level, it is clear that buy-in to the review process at the political and senior official levels is vital if the process is to be successful.⁹ Both the finance and spending ministries should have clear roles in identifying savings options. In the absence of strong commitment at top-level, at both the centre and in spending departments, to the successful delivery of the objectives of the spending review, its prospects for success are weak.

A regular review of baseline expenditure creates a more active role for the government and the finance ministry (or ministry with responsibility for overall expenditure policy) in allocating all resources. The finance ministry has a key role in, firstly, designing the spending review framework and then advising the political level on the selection of parameters. Furthermore, it will have an ongoing role in the identification of savings options. This role, and the role of spending ministries, should be determined at the design stage. At either ends of the spectrum, a “top-down” review is where the ministry of finance identifies savings options with relatively limited input from spending ministries, while a “bottom-up” review is one in which the spending ministries identify spending options for presentation to the political level. A “joint” review involves teams comprised of staff from the spending and finance ministries to identify savings options. A “hybrid” approach requires savings options from both the spending and finance ministry review teams.

Aside from the necessary political buy-in to ensure all parties participate in good faith, even for a bottom-up review the ministry of finance must have a central role. In a bottom-up or joint approach, a clearly designated “command centre” should be located in the finance ministry to co-ordinate the review and take on a challenge role where necessary. This later role involves ensuring that reviews are progressing against the strategic mandate and in line with agreed timetables. There is also a need to advise review teams on technical matters, to ensure methodological consistency and that analysis has been conducted objectively and to challenge submissions and findings where necessary. For strategic reviews, it is vital that the finance ministry has a cohort of staff with not just financial or public finance knowledge but also relevant policy experience.

Where particular expertise is not available within the public service this can be brought in for the review. However, external experts can be more relevant for the delivery of efficiency savings, where new business delivery approaches are to be implemented, than for the identification of ineffective or low priority programmes or policy areas where knowledge of the policy area is relevant.

The role of the wider parliament typically mirrors its role under the budgetary process. In OECD countries the executive tends to take the lead role in deciding savings options. However, stronger analysis and scrutiny by parliament within the annual budget process should also lead to a more involved role in spending reviews.

3.4. Evaluation and performance information

A key challenge for any spending review process is to ensure the availability of relevant, timely and high-quality evaluations of expenditure programmes. However, international experience suggests that spending reviews often have to rely on relatively *ad hoc* expenditure analysis as appropriate evaluations are not always available. This highlights the need to further develop an effective evaluation “culture” to build the capacity at the centre and in spending ministries to generate the quality information, data and analysis required to support the process.

While it is true that all programmes and processes do not necessarily require the same level of in-depth analysis when identifying savings, the availability of timely and accurate performance information and indicators is a crucial foundation for spending reviews. However, while necessary, performance information alone is not a sufficient basis for identifying savings. Such information must be evaluated to determine the extent to which policies are impacting on outcomes. This is one of the most challenging aspects of the spending review process overall, as even with the availability of appropriate data, the interpretation and presentation of that data by different stakeholders involved in the review may often differ.

This is borne out by international experience, where a lack of relevant programme evaluation can hamper review efforts. However, it is not necessarily more evaluation that is needed in many cases, but rather more relevant evaluation. Evaluation relevant to spending reviews should be geared toward the development of savings options. The reports themselves need not explicitly make recommendations for savings but the analysis should be undertaken with the intention of providing sufficient information to allow clear recommendations to be developed within the spending review.

The development of processes to produce performance information and relevant evaluations should be strengthened as part of the wider budget process. Without a stock of existing evaluation analysis, tight timelines can mean that insufficient analysis is conducted over the review round and will likely lead to sub-optimal savings options.

4. Recent Irish experience of spending reviews

Since the beginning of the economic and financial crisis, spending reviews have played an important role in Ireland’s efforts to restore expenditure policy to a more sustainable footing. Three comprehensive reviews of expenditure have been conducted in Ireland in the recent past.

The primary focus of the recent spending reviews in Ireland has been reducing government expenditure to meet overall fiscal targets over the crisis period. The reviews have typically been quite intensive as a result of the scale and magnitude of savings sought, the scope of the reviews and the relatively tight timelines. The economic and fiscal backdrop to this experience contrasts with the recent recovery.

The 2009 Report of the Special Group on Public Service Numbers and Expenditure Programmes (hereafter the Special Group Report) took place in the context of a severely

worsening economic context as the economy shrank rapidly and unemployment rose from 4.7% in 2007 to 12% in 2009.¹⁰

One of the key reforms to the budgetary architecture, announced in the Comprehensive Expenditure Report (CRE) 2012-14, was the introduction of regular spending reviews. Building on international best practice, CREs are intended to constitute one element of a framework of interconnected procedures designed to ensure that the limited public resources available to the Government are being used to efficiently deliver effective public services to citizens. The purpose of these spending reviews is expected to contribute to how the overall volume of resources available are to be allocated to individual Departments over a number of years. In order to seek to support these resource allocation decisions, spending reviews are intended to be informed by relevant evaluations of the effectiveness and efficiency of programmes and agencies, based on information relating to how well programmes have been performing over a number of years.

The CRE 2012-14 was undertaken in the early phase of the EU/IMF Programme in 2011. The CRE 2015-17 was underway as the economic and fiscal position was not only recovering but doing so relatively quickly in 2014.¹¹ This allowed the Government to outline modest increases in expenditure in the subsequent budget rather than the initially planned reductions.

The design of the review processes changed considerably between the Special Group and CRE processes. This was mainly because the CREs were to be integrated in the reformed expenditure framework and planned to take place on a periodic basis. As such, they are designed to be part of normal budgetary and expenditure management practice and to support the Medium-Term Expenditure Framework by allowing for the examination of baseline expenditure alongside new policy proposals to generate better policy choices.

4.1. Scope and coverage

The recent Irish spending reviews have been “comprehensive” in the sense that they were not limited to an *ex ante* list of review topics. In assessing the scope for savings in each area of expenditure, the Special Group considered each programme from first principles insofar as possible based on what was sometimes partial and incomplete information and data. In all cases, the Group’s analysis had regard to the effectiveness of programmes and the current level of spending. The Group also examined the means of providing services and whether these could be delivered more efficiently through streamlined structures and processes or through outsourcing to the private sector.

The basic structure of Ireland’s CRE process was set out by Government in 2011 to examine all areas of spending and assess effectiveness in achieving desired outcomes and value for money.¹² The results of this analysis were to be used in developing multi-annual budget plans with a three-year time horizon. These plans were subsequently presented to Dáil Éireann (the Lower House) for debate. This broad approach of reviewing all spending was maintained for the 2014 CRE. This review was designed to:

- provide the Government with a complete set of decision options to realign spending priorities with the priorities set out in the Programme for Government; while
- meeting overall fiscal objectives; and
- exploring new and innovative ways of delivering Government policy in a reformed public sector.

In Ireland, the CRE process was established as one part of a multifaceted approach to expenditure policy. While expenditure on public service pay and capital investment were not included under the spending reviews they were not excluded from examination. Instead, these elements of public expenditure were examined under different processes, including, for example, the Lansdowne Road Agreement and *Building on Recovery: Infrastructure and Capital Investment 2016-21*.

4.2. Setting of savings targets

In 2009 the consolidation path for 2010 and 2011 implied a EUR 3 billion reduction in current spending, as well as a further EUR 1.75 billion in capital. While guided by these *ex ante* estimates, no explicit savings targets were set for the Special Group. Full-year expenditure saving options of EUR 5.3 billion were identified by the Special Group but they emphasised that these proposals did not represent an exhaustive list of available policy options.

The subsequent CREs were informed by the fiscal targets agreed under the EU/IMF Programme of Financial Assistance and the Excessive Deficit Procedure deficit targets. The introduction of a medium-term expenditure framework (MTEF) including multi-annual Ministerial Ceilings meant that savings targets were implicit in the Ministerial Ceilings.

The 2014 CRE was the first Irish spending review to ask spending departments to identify a certain volume of savings – 5% of the expenditure ceilings for 2015 as set out in the *Expenditure Report 2014*. The original aim of setting the ceiling was to ensure that the CRE process provided a sufficient and wide range of options to Government that would allow it to achieve its immediate fiscal objectives and potentially allow it to make room for new expenditure proposals. In the event, as referred to above, owing to the more rapid than expected economic recovery and improvement in the public finances, the savings target did not need to be realised.

It is important to note that while spending reviews over this period provided savings options for consideration by Government, the review processes themselves did not lead directly to reductions in Departmental expenditure. Rather, it was the decisions taken by the Government as part of the broader budget process, in light of overall fiscal policy considerations, that led to reduced aggregate Departmental spending. As the improved fiscal and economic outlook allows for moderate, sustainable, public spending growth, the spending review process can continue to support better policy choices by broadening the Government's toolkit within the budgetary process.

4.3. Roles and responsibilities of key stakeholders

The approach adopted in Ireland has been to put in place a clear structure with specific roles for each of the participants. However, there are distinct differences between the initial review at the beginning of the crisis period and the subsequent reviews, with the Special Group tending toward being more formal and centralised in nature.

The Special Group was essentially an external body of six people and has been characterised as having a 'court like style' working process. In advance of meeting with the Special Group, each line department was invited to submit an evaluation paper of its expenditure programmes. Within the Department of Finance a section with the relevant financial and policy skills was tasked with producing a separate evaluation paper. This internal paper was reviewed in advance of the Group meeting with the Departmental review team. Arising from their engagements with Departments and officials from the

Department of Finance, and based on their internal assessment of the scope for savings and efficiencies, the Special Group prepared a detailed paper in respect of each Ministerial Vote Group setting out the Group's considered views on each area.

The composition and role of the central group responsible for the CRE processes was considerably different to the review under the Special Group. Both CREs have been led by a high-level Steering Group chaired by the Department of Public Expenditure and Reform and constituted by the senior officials from the Department of Public Expenditure and Reform who have responsibility for overseeing public expenditure and by senior political advisors. An innovation in the 2014 exercise was that the Steering Group was supported by a Working Group of senior officials from the Department of Public Expenditure and Reform. In 2014 the Working Group managed the day-to-day operation of the CRE process meaning that the Steering Group was in a better position to have an overview of how the CRE was progressing and to keep Government informed of the issues that had been addressed and that were arising.

In terms of how the spending reviews were organised, a feature that was common to each of them was that Departments had primary responsibility for evaluating every budget programme for which they were responsible, including those delivered by Agencies under their aegis.¹³ However, the spending reviews differed in terms of central leadership and the functions of the expenditure management sections within the Department of Finance and, subsequently, in the Department of Public Expenditure and Reform.

The CRE process, unlike the Special Group, formally invited submissions from members of the public and when these were received they were passed on to the relevant Department for their consideration. Final decisions were made by Government and presented to the Oireachtas (Legislature) as part of the annual budget process.

4.4. Evaluation and performance information in Ireland's spending reviews

The basic approach adopted in Ireland in each of the spending reviews has been one under which departments prepare submissions using guidance from the Department of Finance and subsequently the Department of Public Expenditure and Reform. These central departments provided a challenge role and in some instances conducted internal reviews, including reviews of horizontal or cross-cutting issues (issues that are common to two or more Departments such as Science and Innovation, Enterprise Supports or the cost-effective delivery of public services at local level).

In order to ensure that the spending review processes were based around key evaluation questions, a core element of the approach was the development of templates for completion by spending departments. These templates focussed on issues of efficiency and effectiveness and were linked to the information base being developed under the parallel performance budgeting initiative. The performance budgeting initiative sought to strengthen the focus upon what is being delivered with public resources and to build this information into the policy making process, more generally, and into spending reviews, more specifically.

The Special Group circulated a very structured template to ensure that the evaluation papers addressed a clear set of questions that were closely linked to the nascent performance budgeting initiative.¹⁴ The template provided under the CRE process was less structured and instead focussed on setting out a standard method for assessing spending areas using three value for money "tests":

- Purpose of the Programme – Rationale, objectives and relevance to Government priorities

- Effectiveness – is the programme achieving its objectives?
- Efficiency – is the maximum being delivered with the resources invested? How can greater efficiency be achieved in the context of a lower level of expenditure?

The CRE process was marked out from previous spending plans and budgetary allocations as it was designed to move beyond a focus on spending reductions. Given the wider context, planned public expenditure reductions were unavoidable, however, achieving spending reductions were not the sole focus of the new approach. Afforded equal importance was the need to refocus priorities and embed expenditure policy within the reform agenda by building on existing analysis and data held by departments, including policy and economic analysis, appraisals of new and changing programmes, and Value-for-Money and Policy Reviews (VFMPRs).

Building upon the experience of the 2011 Comprehensive Review of Expenditure (CRE), the full VFMPRs were complemented with sharper and more narrowly focussed assessments. These Focussed Policy Assessments (FPAs) are designed to answer specific issues of policy configuration and delivery. The experience of the 2011 CRE showed that it is possible to get a quicker turnaround, to high standards of quality, when specific timelines and specific policy questions are set.¹⁵

Despite the breadth of the expenditure examined under the Special Group and the significant volume of information that was generated, the Special Group Report noted a general deficiency of information regarding the public service impacts associated with particular items of expenditure. This focus meant that the information collected as part of the spending review was more concerned with providing the Department of Finance with enough information to be in a position to set out specific measures and their likely yield. Reports produced as part of the CRE processes tended to have a quite short-term focus, i.e. the current levels of demand on a service and the pressures being encountered, rather than setting out how the position has evolved over time and projecting how demand and resources should evolve over the next few years. There was also limited use of existing evaluation work or performance budgeting information. Addressing this gap should be a key consideration in planning future spending reviews and is discussed in the following section.

5. Lessons for future reviews

The design of the Irish budgetary framework – and of the spending review process within it – reflects international best practice. While there are some technical design aspects of the review process that may need to be reviewed to better align it with the new fiscal and economic context, the focus now should shift to promoting the main principles supporting spending reviews within the expenditure management process and wider, reformed, multi-annual framework. Further development of the culture of evaluation and efficiency across the Irish system to support spending reviews will be a key challenge for the future.

5.1. Technical and adaptive change in a reform process

The reforms to Ireland's budgetary and expenditure infrastructure, including spending reviews, played a key role in returning the public finances to a sustainable path. The move to multi-annual planning through the Medium-Term Expenditure Framework compliant with the updated fiscal rules and the renewed focus on evidence based policy must be maintained and extended. One means of examining the current state-of-play with respect to these reforms in Ireland is through the lens of technical versus adaptive change (Table 1).

Table 1. **Conceptual framework: adaptive and technical change in a budget reform process**

Adaptive Change	Mature	A few Stakeholders have developed their own methods to better inform their approach to the budgetary process but with little or no engagement from the finance ministry or from other Stakeholders	All are fully engaged in utilising new processes as part of the budgetary process and can recognise the value of these for their own organisation
	Initial	Budgetary processes remain unchanged with any innovations more likely to be associated with the finance ministry reacting to events rather than of lasting consequence	Stakeholders are engaging in “complying” with demands from the CBO but these are regarded as of little value as have tenuous links to the budgetary process
		Pilot-Reform	Mature Post-Reform
Technical change			

The “pilot-reform” position described above is associated with an initial implementation of reforms to a budgetary system that has remained largely unchanged over a prolonged period of time and within which participants have well-rehearsed and practiced approaches to influencing the budget allocations. The “mature post-reform” stages set out in Table 1 is associated with a structured approach that has streamlined existing processes and is clear about which bodies are to be included, their roles and why they are to be included.

The second dimension above refers to “adaptive change” and is concerned with the challenge of ensuring that people change how they think and behave in relation to the problems and challenges they face. In terms of “adaptive change” the framework seeks to locate the various reforms on a dimension that compares an “initial” reform position with a “mature” reform position. The “initial” position is associated with few stakeholders using the new budgetary process with most ignoring them as they are perceived as having little direct impact on the budgetary process. The “mature” position is associated with all stakeholders positively engaged with a process that has clear links to the budget.

While Ireland’s budget framework can, in most respects, be positioned in the mature post reform stage of technical change, in some respects it remains in the early stages of adaptive change. The approach has focussed on setting out innovative expenditure management and budgetary structures and ensuring compliance with the underlying processes. However, there has been no consistent, across the board shift in culture toward the principles underpinning such reforms.

The design of the spending reviews is somewhat integrated into the overall budgetary framework in Ireland and should adapt to the new economic and fiscal context without significant design changes.¹⁶ However, while the technical elements are in place the focus should now shift to ensuring the culture underpinning these reforms – to maximise expenditure efficiency and effectiveness for all public spending through the use of evidence based evaluation – is significantly more firmly embedded in the regular budgetary processes.

The following sections briefly highlight, firstly, how a greater stock of evaluations relevant to spending review objectives can be developed and, secondly, how these evaluations can be better integrated into budgetary decision-making through the expenditure review process. In many respects the aim is to further integrate the key elements of the architecture for expenditure planning and management: the fiscal rules, Medium-Term Expenditure Framework, the performance budgeting initiative and the Public Spending Code.

5.2. Support the development of more relevant evaluation and performance information

To create a stock of evaluations to support the spending review process, a culture of evaluation and efficiency must be further fostered so that evaluation is further embedded as a feature of budgeting. This has improved in recent years with certain Departments undertaking evaluations across a number of policy areas. The degree to which the process integrates performance information and the existing stock of evaluations of policy programmes must also be improved. The need for more relevant evaluation and supporting performance information should be reflected in both the performance budgeting initiative and Public Spending Code.¹⁷

A detailed review of the performance information provided for the 2016 Estimates process was carried out this year. The purpose of this review was to determine the main types of information being provided and the quality of that information. As a result of this review, detailed feedback was circulated to each of the main Government Departments, along with a guidance note to assist Departments in selecting and reporting on performance indicators. In a new departure, the Government has decided that by the end of the first quarter of each year the Minister for Public Expenditure and Reform will submit a Performance Report to the Oireachtas to provide information on the performance of each Vote and the linkages between results and resources. The Report will lay the foundation for a more systematic engagement by parliamentarians and the public on the impact of public policies and on resource allocation decisions. Spending reviews would benefit from stronger links with medium-term Departmental Statements of Strategy. Multi-annual performance information and targets reflecting policies set out in these Statements would allow for performance planning and monitoring to parallel the process on the resource side through the Estimates process.¹⁸

The Public Spending Code aims to ensure that the State gets the best possible value for the resources at its disposal. This encompasses economic appraisals for new expenditure proposals and best practice in efficiently planning and managing spending programmes. In addition, it sets out that projects and programmes should only be continued if they are effective in achieving their intended outcomes, which requires good performance monitoring as well as post project review and evaluation. A review of the Public Spending Code is currently ongoing, the results of which could be used to maximise the stock of relevant evaluations. The criteria for selection of review topics and the timing of reviews could be examined to ensure the timely provision of relevant evaluations for spending reviews. The use of FPAs may also be reviewed to assess and promote their role as concise evaluations of discrete expenditure elements.

The dividends of this approach are more likely to be realised if Departments integrate the methodologies set out under the spending review into their annual budgetary negotiations and daily management of resources. The formal evaluation of efficiency and effectiveness could be more widely used in assessing new policy measures in their consideration as part of the budget process. Linking a resource request to clear policy aims (identified under the Statement of Strategy), output targets and key performance indicators would greatly facilitate the comparison of new measures and also the future evaluation of policy measures. This would also mean the performance budgeting initiative, the spending review framework and the Public Spending Code would be mutually supporting.

Finally, to encourage a more widespread culture of evaluation, responsibility for assessing the efficiency and continued effectiveness of particular areas of spending, cannot be driven entirely by the central expenditure function but must be seen as an integral part of the management of spending in sectoral areas. Such an approach will require that Departments have the internal capacity to conduct this type of analysis. In Ireland, the Irish Government Economic and Evaluation Service (IGEES) has been established to support better policy formulation and implementation in the civil service through economic analysis and evaluation. This Service will allow for the existing good practices amongst certain Departments to be disseminated across the system. As set out in the IGEES Medium Term Strategy 2016-2016 (to be published at the end of October 2016), the work programme of IGEES staff will reflect an increasing level of output to inform the policy debate, contribute to better policy outcomes and achieve better value for money for the public. This output will add to the stock of data, analysis, and evaluation held by Departments which could be used to support the Spending Review process.

5.3. Greater incorporation of evaluation and performance information in budgeting

A consideration in the development of CREs in Ireland was to bring together relevant performance information and evaluations of the effectiveness and efficiency of programmes and agencies. A significant challenge over the coming years is to ensure that the tools that have been developed become ever more embedded in resource allocation decision making. The spending review process can play a key role in further developing the culture of evaluation by demonstrating the importance of this information in creating fiscal space for new policies within the budget process.

Spending reviews in Ireland have been relatively intensive and comprehensive processes undertaken within a short period of time. To further normalise this process, and reflecting the likely reduction in savings sought as the fiscal position improves, consideration should be given to reducing the scope of individual rounds or alternatively extending the timelines of each round.

A more “selective” approach to individual review rounds could be developed as part of a rolling series of rounds. Alternatively, extending the review to extend over an annual budgetary cycle could also be leveraged to generate considerable information about the full range of expenditure programmes that are being delivered across the public service and subsequent spending reviews could build on this foundation of information. Furthermore, an extended review would facilitate the subsequent development of relevant evaluation following this period of “diagnostics” at the beginning of the round. Such a review could be knitted into the “whole of year” budget cycle with key deliverables in line with the timetable.

The changed political landscape in Ireland presents an opportunity to enhance the budgetary process through increased engagement between the Government and the Oireachtas. The need for enhanced engagement by the Oireachtas in budgetary scrutiny is highlighted in the Programme for a Partnership Government, with a number of commitments aimed at ensuring the Oireachtas has a more participatory role in the budget process. This process began with the Summer Economic Statement, which detailed the Government’s medium-term strategy for sustaining economic growth and stable public finances. The *ex ante* role for the Budget Oversight Committee and the sectoral Select Committees should be explored in this context in line with their developing role in the annual budget process.

6. Conclusion

The overall expenditure framework in Ireland is designed based on principles derived from international best practice in this area. The spending review process plays a key part but in the new fiscal and economic context this role can be further developed. The role of spending reviews should be examined with a view to further embedding the principles of expenditure efficiency and effectiveness into the wider budget process. This can be achieved through further leveraging existing and ongoing reforms, including the performance budgeting initiative, the Public Spending Code and the Irish Government Economic and Evaluation Service. This will lead to the increased availability of relevant evaluations and performance information and ensure such evaluations support policy decisions in the budgetary process.

Notes

1. The IMF (Fiscal Monitor, Expenditure Reform: Making Difficult Choices, 2014) highlights Baumol's Cost Disease and Wagner's Law as two mechanisms by which government spending can grow as a share of the economy due to relative prices for public services and increasing demand for public services arising from economic growth.
2. Prior to 2007 only the Nordic countries, the Netherlands and the UK had engaged in large scale spending reviews giving tangible results within the EU. In contrast there are currently 8 euro area countries engaged in various stages of spending reviews (EU Commission, 2016).
3. "Fiscal space" is defined as the projected amount of resources available to the Government for additional expenditure and/or tax reductions, while ensuring compliance with the fiscal rules, specifically the so-called Expenditure Benchmark (Department of Finance, 2016).
4. See Robinson, M (2014).
5. See EU Commission (2014).
6. For example, the manner of implementation, and other elements assessed as part of the feasibility assessment, can have a bearing on final savings decisions. A decision to change business processes in order to deliver efficiency savings may require piloting and experimentation prior to full roll-out. While prudent, this approach can cause considerable delays between a decision being taken and the delivery of savings.
7. Typically even an in depth efficiency review is unlikely to yield savings of more than 2% of government expenditure (Robinson 2014).
8. See IMF (2015), Technical Assistance Report – Establishing a Spending Review Process, IMF Country Report No. 15/265.
9. Purely efficiency savings, being concerned mainly with the process rather than outputs, may not necessarily need the same level of political support as the issues raised are not as sensitive.
10. www.finance.gov.ie/news-centre/press-releases/report-special-group-public-service-numbers-and-expenditure-programmes.
11. www.per.gov.ie/en/comprehensive-review-of-expenditure/.
12. Republic of Ireland, Taoiseach (2016), Government's Statement of Common Purpose 2011-16.
13. Departmental reports produced for each CRE are available at www.per.gov.ie/en/the-comprehensive-expenditure-report-2015-2017-2/.
14. This template included high level goals; financial and human resources allocated; key outputs; delivery mechanisms and an assessment of how this programme is meeting its intended policy objectives taking into account the resources allocated; key drivers increasing demand for resources in part and likely pressures in future years and how these might be contained; likely consequences if the programme was discontinued; and possible options for reductions in numbers and programme expenditure, including through administrative efficiencies and scaling-back or elimination of certain programmes.

15. VFM and Policy Reviews (VFMPRs) are conducted in accordance with guidelines developed 2007 (and the Public Spending Code) and are generally carried out thoroughly and are useful in addressing the main value-for-money issues. However, the VFMPR process did not achieve its full initial ambitions, in terms of breadth of coverage and direct relevance for the resource allocation process. It was also quite time-consuming and administratively burdensome and did not lend itself to timely turnaround of reports. Related to this, it was difficult for the VFMPR process to cover a broad range of spending areas in any one or two year period. Drawing on the experiences of conducting the 2011 CRE, the VFMPR process was updated and streamlined, and supplemented with more Focused Policy Assessments (FPAs), which can be conducted more quickly.
16. The Medium-Term Budgetary Framework document (2014, Department of Finance) gives a detailed explanation of the overall budgetary framework in Ireland.
17. The Public Spending Code is the set of rules, procedures and guidance to ensure Value for Money in public expenditure across the Irish Public Service. The objective of the Public Spending Code is to ensure that the State achieves value for money in the disbursement of public funds.
18. See Boyle, R. (2011), “Better Use of Public Money: The Contribution of Spending Reviews and Performance Budgeting”, State of Public Service Series.

Bibliography

- Boyle, R. (2011), “Better Use of Public Money: The Contribution of Spending Reviews and Performance Budgeting”, *Research Paper No.5*, Institute of Public Administration, State of Public Service Series, Dublin, www.ipa.ie/pdf/BetterUseofPublicMoney.pdf.
- EU Commission, (2016), *Spending Reviews for smarter expenditure allocations in the Euro Area*, Quality of Public Finance Note for the attention of the Eurogroup, Ref. Ares(2016)4994801, European Commission, Brussels, www.consilium.europa.eu/en/meetings/eurogroup/2016/09/spending-reviews_commission_note_pdf/.
- European Commission (2014), “Public Spending Reviews: design, conduct, implementation”, *Economic Papers 525*, European Commission, Brussels, http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp525_en.pdf.
- IMF (2014), *Fiscal Monitor, Expenditure Reform: Making Difficult Choices*, World Economic and Financial Surveys, IMF, Washington, DC, www.imf.org/external/pubs/ft/fm/2014/01/pdf/fm1401.pdf.
- IMF (2015), “Republic of Slovenia, Technical assistance report – Establishing a spending review process”, IMF Country Report No. 15/265, IMF, Washington, DC, www.imf.org/external/pubs/ft/scr/2015/cr15265.pdf.
- Republic of Ireland, Department of Finance (2009), *Report of Special Group on Public Service Numbers and Expenditure Programmes*, Dublin, www.finance.gov.ie/news-centre/press-releases/report-special-group-public-service-numbers-and-expenditure-programmes.
- Republic of Ireland, Department of Finance (2014), *Medium-Term Budgetary Framework*, Dublin, www.finance.gov.ie/sites/default/files/140718%20Medium%20Term%20Budgetary%20Framework%20-%20revised.pdf.
- Republic of Ireland, Department of Finance (2016), *Information Note on Fiscal Space 2017-21*, www.finance.gov.ie/sites/default/files/Information%20Note%20on%20Fiscal%20Space%202017%20fin.pdf.
- Republic of Ireland, Department of Public Expenditure and Reform (2016), *Comprehensive Review of Expenditure*, Accessed 21 October 2016, www.per.gov.ie/en/comprehensive-review-of-expenditure/.
- Republic of Ireland, Department of Public Expenditure and Reform (2016), *Comprehensive Expenditure Report 2015-2017*, accessed 21 October 2016, www.per.gov.ie/en/the-comprehensive-expenditure-report-2015-2017-2/.
- Republic of Ireland, Taoiseach (2016), *Government’s Statement of Common Purpose*, accessed 21 October 2016, www.taoiseach.gov.ie/eng/Work_Of_The_Department/Programme_for_Government/Programme_for_Government_2011-2016.pdf.
- Robinson, M. (2014), “Spending reviews”, *OECD Journal on Budgeting*, Vol. 13/2, <http://dx.doi.org/10.1787/budget-13-5jz14bz8p2hd>.

Determinants of sound budgeting and financial management practices at the decentralised level of public administration

by

Ben Smith Owusu Bempah*

This study employs path analyses to explain the determinants of implementation of sound budgeting and financial management practices at the local level of public administration. This paper recommends strengthening strategic planning, characteristics of implementing agencies, contextual factors and the disposition of management teams to achieve sound budgeting and financial management practices. Further recommendations are made for future research.

JEL classification: H6, H51

Keywords: Strategic planning, budgeting and financial management practices

* Ben Bempah is a Principal Planning and Budgeting Officer at Ghana Health Service and alumni of the National Institute of Development Administration-Graduate School of Public Administration Bangkok, Thailand.

1. Introduction

Valdimer Orlando Key (1949) sought to address the unresolved problem of public budgeting, that is how to deal with limited resource allocation of x dollar to activity A and not B by offering a macroeconomic prescription that improves government allocative efficiency (Khan and Hildreth, 2002; Fozzard, 2001). Insight from contemporary economic development theories informs us that the budget problem goes beyond allocative efficiency. New Public Management (NPM) has reinforced the need to consider the institutional, cultural, behavioural, strategic planning and contextual dynamics that affect public sector budgeting and financial management (Gruening, 2001).

The World Bank (1998) points out that sound budgeting and financial management practice is key to achieving the expected outcome of government policy. Sound budgeting and financial management practice is defined to embody the generally accepted principles guiding budget preparation, execution, monitoring and evaluation. The aim is to enhance spending controls, linkages between resource allocation and priorities and use of funds to achieve targeted objectives (Allen and Tommasi, 2001:3; World Bank, 1998:1; Schick, 1998:2). According to Graham (2011) good budgeting should possess medium term perspective, base decisions on results, provide incentives to budgeters and involve stakeholders in preparation and implementation.

1.1. *The context of ghana health sector public expenditure management reform*

Ghana has been reforming its public expenditure management system to achieve increased and sustained economic growth. Ghana's Public Expenditure Management (PEM) reviews in 1993, 1994 and 1995 identified several weaknesses of the hitherto orthodox method of line item budgeting and incremental budgeting. These included: Poor budgetary and financial management planning and implementation lack of accountability, transparency and poor public sector performance (Oduro, 2003; Kabo, 2004; Short, 2003). The PEM reviews recommended the strengthening of institutional and regulatory systems to improve upon budgeting and financial management practices. Legal frameworks such as the Public Procurement ACT 2003, (ACT, 663), Financial Administration ACT 2003 (ACT, 654) and Internal Audit Agency ACT 2003 (ACT, 658) were enacted and implemented.

The Ghana health sector PEM review in 2008 acknowledged low budget credibility, inadequate resource and unpredictable flow of funds for implementation (MoH, 2010). According to the Ministry of Health by the end of June 2009 for instance, only 12% of the Government of Ghana's allocation for service implementation had been released to the sector. The rhetoric has been that weak budgeting and financial management practices are contributing to sub-optimal performance in the health sector (MoH, 2010:23). However, there has not been any empirical study to ascertain the determinants of budgeting and financial management practices as well as its effects on performance outcome in the Ghana's health sector. This study, therefore, contributes to offering suggestions for improving budgeting and financial management practices in the sector.

1.2. Theoretical gaps and study objectives

Academics have long lamented over the methodological approaches to budgeting and financial management research (Khan and Hildreth, 2002; Rubin, 1990; Gibran and Sekwat, 2003). They contend that the general lack of theory of budgeting over focuses on use of case studies as well as the concentration of PEM reforms studies at the national and sectoral levels (Short 2003, World Bank, 1998). This leaves out the focus of understanding budgeting and financial management practices at the implementation levels of government. It must be mentioned that policy implementation, budgeting and financial management is eclectic, however, there are limited attempts to develop multi-theoretical frameworks for their empirical investigations (Khan and Hildreth, 2002, Rubin, 1990). There are also scarce attempts by academicians to develop and test theoretical models of budgeting and financial management practices (Schick, 1983; Khan and Hildreth, 2002; LeLoup, 1983).

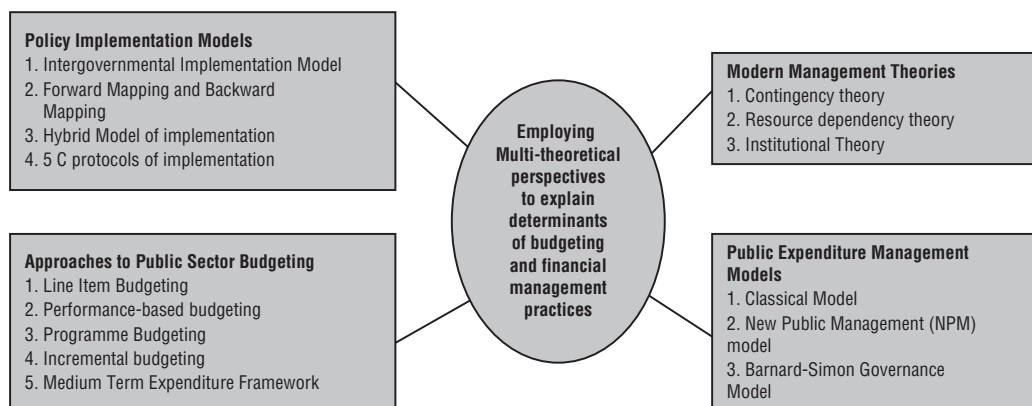
This study, therefore, draws on the potential interface of policy implementation, modern management, and budgeting and financial management theories to develop a model that broadens the scope of understanding of budgeting and financial management practices at a decentralised level of public administration. The principal objectives of the research are as follows:

1. to assess the relationship between the determinants of budgeting and financial management practices at local level of administration;
2. to perform path analysis to ascertain the direct and indirect effects of the determinants of sound budgeting and financial management practices; and
3. recommend considerations for improving budgeting and financial management practices at the local level of administration.

2. Literature review and conceptual framework

In this study, theoretical insights are borrowed from policy implementation, modern management budgeting and financial management disciplines. This stems from the wider theoretical complexities of developing a holistic model to explain budgeting and financial management practices (see Figure 1).

Figure 1. **Theories, models and approaches to policy implementation, budgeting and financial management practices reviewed**



2.1. Policy implementation models

Policy implementation is concerned with the process of interaction between the setting of goals and actions aimed at their attainment (Pressman and Wildavsky, 1984). Three generational approaches have influenced implementation studies (Goggin, Bowman, Lester, and O'Toole, 1990). The first generation (Early 1970s) employed case studies to explain policy implementation. This generation helped to define variables, which affect the successful outcome (Pressman and Wildavsky, 1973). The second generation (1975-80s) was characterised by top-down and bottom-up discourse and a focus on developing analytical frameworks to explain implementation. Top-down proponents assumed that once a policy is formulated and backed by rules and norms agencies downstream will implement it accordingly. Hence they emphasised on the use of resource allocation criteria, regulations and administrative control to direct policy implementation. These models include: The Intergovernmental Implementation Model (Van and Van Horn, 1975), and the Forward Mapping and Backward Mapping Implementation Model (Elmore, 1979-80). Van Meter and Van Horn (1975), for instance explained variables such as communication and rule enforcement, characteristics of implementing agencies, socio-economic, political considerations and disposition of managers to determine successful policy implementation.

The bottom-uppers maintained that street level bureaucrats play a significant role in the interpretation and implementation of public policies. To the bottom-uppers factors such as managers' disposition, incentives and motivation affect the outcome of policy implementation. Sabatier and Mazmanian (1983) developed the hybrid framework of implementation, which looks at the tractability of the problem (technical theory and technology), the ability of the state to structure implementation (clear and consistent objectives, financial resources), non-statutory variables (socio-economic conditions, commitment and leadership skills of implementers) to impact on implementation outcome.

The third generation of implementation researchers (1980s and beyond) brought to academic consideration the need for the clear design of theoretical frameworks with explicit operational concepts, which are testable, predictive and can be generalised. Najam (1995: 453) for instance reviewed the literature on implementation and came out with the "5C" protocols of implementation studies, which are policy Content, Context, Commitment, Capacity and Client and Coalitions.

2.2. Perspectives from modern management theories

Contingency theory: Contingency theorists posit that organisation, which are able to fit their internal structures to the dictates of their environment, succeed and grow. Key contingent variables studied to affect budgeting and financial management practices include, size, structure, culture, technology and team commitment (Lawrence and Lorsch, 1967; Lüder, 1992; Scott, 2003; Chalos and Poon, 2000).

Resource Dependency: Resource dependency assumes that the survival and growth of any organisation hinge on its ability to mobilise adequate resources for production. This implies that organisations having adequate resources and being able to predict the flow of funds with power and autonomy for implementation sustain their growth (Pfeffer and Salancik, 1978; Leruth and Paul, 2007).

2.3. Institutional theory perspectives

Institutional theorists posit that organisations mimic the rules and myths of their wider environment in order to increase their legitimacy and survival. According to Scott (2008) there are three pillars of an institution: normative, regulative and cultural cognitive.

Normative: Budget norms and behavioural practices of budget officials in ensuring compliance are important factors that should be taken into account in explaining budget and financial management practices (Wildavsky and Caiden, 1997). Classical budget theory is underpinned by the principles of annuality, unity, appropriation and audit, which have formed the framework of for defining the structure of a budget to present days.

Regulative: Encompasses the conformity to stated rules and laws governing budgeting and financial management. The assumption is that agencies adhering to the prevailing norms and regulation achieve successful policy implementation. Review of the literature helped to articulate the key rules and norms that have to be incorporated and adhered to in budget and financial management practices as indicated below (Lacasse, 1996; Hôgye, 2002; Musso, Graddy, and Grizard, 2006; Mikesell, 1991).

Table 1. **Budget Rules and Norms**

No	Budget Rules and Norms	Explanation
1	Comprehensiveness	All components of expenditures and revenues must be contained in the budget and subject to budgetary processes
2	Annularity	Utilisation and spending towards the end of the year should reflect prioritised objective and achieve value for money
3	Multi-year perspective	Formulate a three-year rolling plan with established capacity for implementation
4	Monitoring and evaluation	Periodic monitoring and evaluation of plans and budgets during implementation with necessary feedback
5	Rewards and sanctions	Establish mechanisms to ensure compliance with established norms and regulation
6	Auditing	Ensure transparency, accountability to promote value for money

Cultural Cognitive Pillar: Cammack (2007) states that a cultural perspective of budgeting and financial management should consider the following: Management commitment to dealing with financial matters, leadership involvement in establishing financial priorities and the capacity of financial management staff Amdrew (2006) notes that in Ghana leadership acceptance of institutionalised political and managerial reform were crucial to the success of financial management reform.

2.4. Approaches to public sector budgeting

Line Budgeting: Focuses on controlling inputs (salaries and wages, goods and services) necessary for the provision of government services. The general assumption is that line item budgeting allows top executives to exercise control over inputs in a bid to maintain budget discipline.

Performance-Based Budgeting: Focuses on the linkage between the funds provided to public sector entities and their outcomes and/or outputs. It highlights the linkage between policy and priorities and allocation of implementation resources to achieve expected outputs.

Incremental Budgeting: Reviews the previous year's budget and adjustments are made to reflect current goals and objectives.

Medium Term Expenditure Framework (MTEF): This approach seeks to ensure attainment of improved fiscal discipline and allocation of resources aligned to government policy objectives and priorities for a three-year rolling perspective (Schick, 1998).

2.5. Public expenditure management models

Classical Model: According to the classical model proponents argue in favour of, input control, rule-based and adherence to fiscal discipline. Bureaucrats, therefore, ensure stability and conformity through the rational implementation of plans, budgets and financial management guidelines (Chan, 2003: 2). The point to note is that following budget and financial management rules is assumed to enhance successful implementation of government policies at all levels.

New Public Management: Underscores the fact that the public sector should not be different from the private in terms of focus on efficiency, performance management, transparency and accountability (Pollitt and Bouckaert, 2004). The central notion is that budget managers must be cost conscious and be innovative in generating revenue

Barnard-Simon Governance Model: This model dwells on the need for establishing governance and leadership structures through, which control, authority, power specialisation and purpose can be brought to bear in budgeting and financial management practices at all levels of government Chan (2003). Financial managers focus their role on engaging with funders and financial performance monitoring.

2.6. Conceptual framework

The proposed conceptual model helps to simplify understanding and explain the factors affecting the implementation of sound budgeting and financial management practices. The factors assessed to affect sound budgeting and financial management are: strategic planning, contextual factors, disposition of management teams and characteristics of health directorates (see Figure 2).

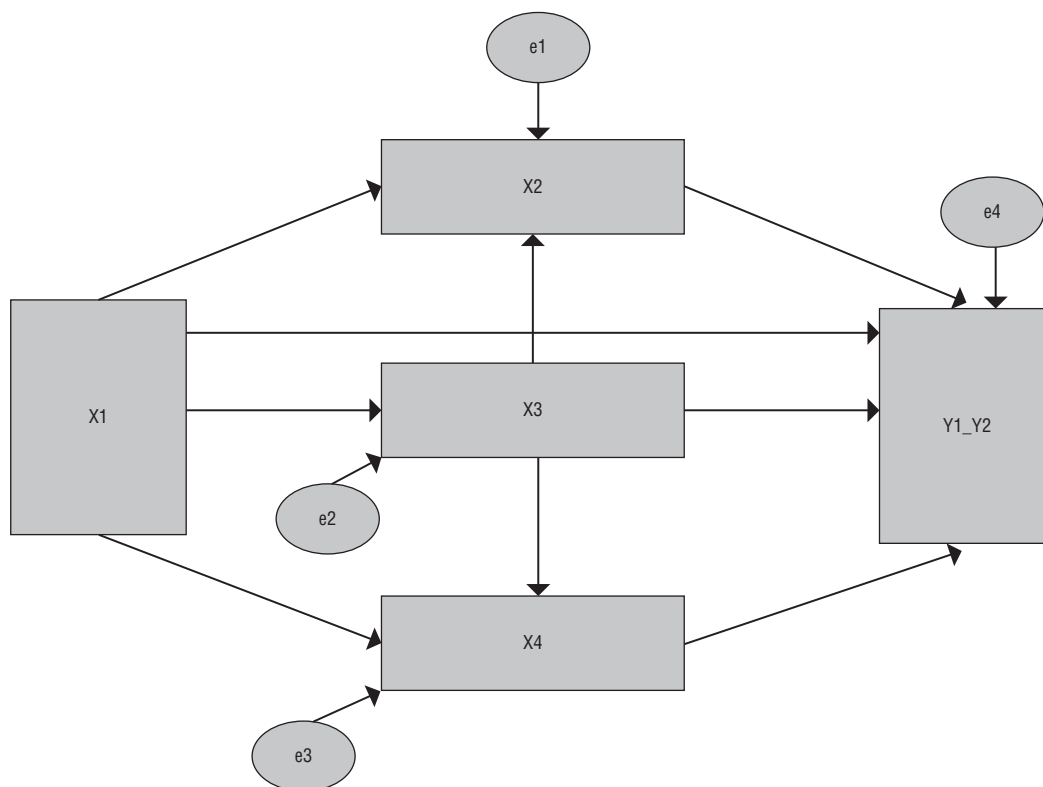
2.7. Strategic planning

Strategic planning entails the process of establishing what an organisation intends to achieve and mobilising and managing resources over time to accomplish it (Barry, 1997: 8). The Medium Term Expenditure Framework entails the process of strategic planning in which public organisations in Ghana plans for a three-year horizon with a resource envelope (Short, 2003). Three main factors affect strategic planning in relation to the achievement of sound budgeting and financial management practices. These include the extent of key stakeholders' participation in the process (Shah, 2007; Shileds and Young, 1993; Lipsky, 1980; World Bank, 1998); the clarity of the policy content (Sabatier and Mazmanian, 1983; Van and Van Horn, 1975) and resource adequacy and predictability for implementation (Grizzle and Pettijohn, 2002; Chanddarasorn, 1997; Pfeffer and Salancik, 1978; Van and Van Horn, 1975).

2.7.1. Stakeholder participation

Participatory budgeting a feature of MTEF and performance-based budgeting has an inherent conception that stakeholders' participation in budget preparation and implementation reduces information asymmetry and addresses budget dysfunction (Chalos and Poon, 2000; World Bank, 1998; Argyris, 1953). According to Fölscher (2007: 186) participatory budgeting initiatives, which foster adherence to the basic tenets of sound budgeting and financial management practices, are effective to achieve intended policy results.

Figure 2. **Conceptual framework: Determinants of sound budgeting and financial management practices**



Source: Key: X1 = Strategic Planning, X2 = Contextual Factors, X3=Disposition, X4=BMC Characteristics Y1-Y2 = Sound Budgeting and Financial Management Practices, e1 - e6 = error.

2.7.2. Policy content

According to Van and Van Horn (1975), the prerequisite for successful implementation demands that implementers clearly understand the policy standards and objectives. The policy content component is underpinned by the hybrid theory of implementation, which underscores the need for clear policy content from the top and effective articulation of standards to guide implementation at lower levels (Goggin, Bowman, Lester, and O'Toole, 1990). Institutional theorists also posit that adhering to clear policy standards to improve the legitimacy and survival of organisations in terms of policy implementation (Scott, 2008; Oliver, 1991).

2.7.3. Resource adequacy and predictability

Resource adequacy and predictability in this research is reinforced by the resource dependency theory (RDT) (Scott, 2003; Oliver, 1991; Pfeffer and Salancik, 1978) as well as the MTEF approach to planning and budgeting (Kabo, 2004; Oduro, 2003; Schick, 1998; World Bank, 1998) and also the governance model of financial management (Chan, 2003). According to Chan (2003) the classical model of financial management holds the view that revenue and spending decisions should be projected over a fiscal period so that managers are informed and can predict the flow of resources to implement their plans and budgets successfully.

2.8. Contextual factors

Scott's (2008) three pillars of an institution which are: Normative, regulative and cultural influences are taken to impact on the implementation of sound budgeting and financial management practices. The institutional context illuminates understanding on the need to adhere to budget norms and regulations in order to legitimise the actions of budget officials during implementation. Other important contextual considerations in budgeting and financial management are the socio-economic and political influences.

2.8.1. Normative pillar

The mainstay of the normative influence is that strengthening budget and financial management norms and ensuring adherence to their practices ensure the success of implementation. The classical, new public management and the Barnard-Simon Governance models of public financial management (Chan, 2003) and the MTEF approach to budget preparation all dwell on the effective articulation of norms to achieve successful implementation (Short, 2003; World Bank, 1998).

2.8.2. Regulative pillar

The thrust of the regulative pillar is that managerial articulation and enforcement of regulations leads to sound budgeting and financial management practices (Shah, 2007; World Bank, 1998; Schick, 1998; Lacasse, 1996). From an institutional context, it is assumed that due to the quest for legitimising their actions, financial managers will comprehend and adhere to regulations for sound budgeting and financial management practices.

2.8.3. Cultural pillar

Recognisable roles and structural arrangements of an organisation are important facets of its culture (Scott, 2003). Studies in budgeting and accounting innovation have established a correlation between organisational culture, roles and behaviour of budget officials and its effect on implementation outcome (Goddard, 1997, p. 111; O'Connor, 1997; Lüder, 1992, Cammack, 2007, p. 13). The components for examining the cultural aspect of this study are adapted from Cammack (2007:13) *Building Capacity through Financial Management: A Practical Guide*. These components are; the focus of management committee on financial matters, leadership example in setting financial priorities, leadership adherence to financial management principles and regulations and the capacity of financial management staff.

2.8.4. Socio-political and economic factors

Bhuyan, Jorgensen, and Sharma (2010) documented factors for assessing the effect of socio-political and economic factors on policy implementation. These factors include; local political influence such as compatibility of local plans and budgets with relevant national local and divergent policies (Khin, 2010; Rubin, 1993; Lüder, 1992; Wildavsky, 1992), social factors such as gender norms (Budlender, Sharp, and Allen, 1998) economic issues such as poverty and global assistance (Grizzle and Pettijohn, 2002; Lüder, 1992; World Bank, 1998; Lüder, 1992).

2.9. Disposition of management teams

Top-down (Van and Van Horn, 1975: 445-488) and bottom-up (Lipsky, 1980; Elmore, 1979-1980; Lipsky, 1971) implementation scholars have all recognised the effect of the disposition of management teams on implementation success. Among the variables considered in this

study that affect managers' disposition are: i) participation of implementers in policy decisions (Chenhall and Brownell, 1988; Gross, Giacquinta, and Bernstein, 1971; Hofstede, 1965); ii) motivation (Robinson and Brumby, 2005:16; Sandalgaard, Bukh, and Poulsen, 2001: 8); iii) trust (Graham, 2011: 29; Cammack, 2007: 4); iv) adequate training (Cammack, 2007: 71; Lüder, 1992: 115); v) commitment (Graham, 2011:31; Bhuyan, Jorgensen, and Sharma, 2010: 6; O'Connor, 1997); and vi) acceptance and training (Lüder, 1992:10,115).

2.10. Characteristics of implementing agencies (Health Directorates)

Contingency studies have identified the following variables to affect performance outcome: i) staff capacity (Graham, 2011; Cammack, 2007; Lüder, 1992); ii) team work (Merchant, 1984); iii) information communication and technology (Woodward, 1965); iv) size and structure (Blau, 1970) and v) management teams' support (Chalos and Poon, 2000). For the purpose of this study only financial management Information system (FMIS), staff capacity and functioning of management teams are considered due to their potential impact on sound budgeting and financial management practices at the local level.

2.11. Sound budgeting and financial management practices

The World Bank (1998: 129) provides a checklist consisting of 14 items for assessing budget practices out of which 11 were modified for the study and 9 items for assessing financial management practices, which were all, adapted. The 11 items of sound budgeting practices are:

1. evidenced-based planning and budgeting
2. annual budget based on multi-year resource envelope
3. plans and budgets which consider the national macroeconomic policy environment
4. equitable resource allocation criteria
5. transparent plans and budgets
6. use of authorisation procedures in the implementation
7. effective spending control,
8. the incentive for efficient resource use
9. use of performance measures to monitor the implementation
10. managerial discretion and flexibility over resource use
11. support of accounting software for planning, budgeting and financial management.

The 9 items of sound financial management practices adapted for the study are:

1. financial decisions based on accounting standards
2. efficient cash management
3. timely disbursement of budgeted funds
4. accountability for expenditure
5. effective internal control systems
6. audit of expenditure (professional, timely reporting)
7. a financial management information system that links planning, budgeting, accounting
8. consistency between budget and accounting system
9. transparent and competitive procurement system

Based on further review of the literature on budget and financial management system, an additional three items were added:

1. consistency of strategic planning with the dictates of the accounting and financial management principles,
2. properly maintained and safeguarded books of accounts and accounting records and
3. use of financial management performance indicators to monitor plans and budgets implementation (Graham, 2011; Cammack, 2007; Allen and Tommasi, 2001).

3. Methodology

3.1. Data collection

The unit of analysis was 107 District Health Directorates (DHDs) in Ghana out of 170, which existed in 2008. All the Directorates were from Budget Management Centres at the metropolitan, municipal and district levels in all ten regions of Ghana. Respondents were purposely, accountants and financial managers because they are principally involved in strategic planning, budgeting and financial management processes. Trained field staff from the Ghana Health Services administered the questionnaires.

3.2. Measurement and instrumentation

The survey instrument consisted of five main parts. The first part is strategic planning measured by stakeholder participation, policy content and resource adequacy and predictability. The second part is contextual factors, which consist of normative influence, regulative influence, cultural influence and socio-political and economic influence. The third part is the disposition of management teams. The fourth part is characteristics of implementing agency (health directorate) which include: financial management information systems, staff capacity and functioning of management teams. The fifth part measures sound budgeting and financial management practices. All the factors were measured using a ten-point rating scale from 1 being very low to 10 being very high. IBM SPSS version 20 was used for data screening, exploratory factor analysis, reliability testing and bi-variate correlations. IBM SPSS AMOS version 20 was used to perform Structural Equation Modeling (SEM) for path analysis to determine the direct and indirect effects of the determinants of sound budgeting and financial management practices. In view of the complexities associated with designing a theoretical model for implementation of sound budgeting and financial management practices, SEM was used to effectively ascertain the relationships between both manifest (i.e. observed) and latent variables and also for confirming the factor structure (i.e. underlying theoretical construct).

In terms of Exploratory Factor Analysis, all the variables exceeded the minimum KMO threshold of 0.6. Socio-political and economic recorded the least, 0.68 and the highest being sound budgeting practices 0.93 (see Table 2). The eigenvalues recorded for all the constructs exceeded the minimum requirement of 1. For variance explained, the least was culture (42%) and the highest being functioning of management teams (64%). Moreover, the study constructs achieved a Cronbach alpha above the acceptable threshold of 0.7 as recommended for social science research. Confirmatory factor analysis was performed to validate the fit of the measurement model for explaining each of the constructs for explaining budgeting and financial management practices. This enhanced a better understanding of the relationships between latent and observed variables.

Table 2. **Summary results of exploratory factor analysis, reliability and CFA**

Factor	Components	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Eigenvalue	Variance Explained	Reliability: Cronbach Alpha	No. of Items	Chi-square/df (cmin/df)< 3 good; < 5 sometimes permissible	p-value for the model > 0.05	Comparative Fit Index (CFI) > 0.95 great; > 0.90 traditional; > 0.80 sometime permissible	Goodness of Fit Index (GFI) >0.95	Root Mean Square Error of Approximation (RMSEA) < 0.05 good; 0.05-0.10 moderate; > 0.10 bad
Strategic Planning	Stakeholder Participation	0.82	3.23	53.86	0.82	6	1.01	0.416	1	0.982	0.01
	Policy content	0.81	2.79	55.75	0.79	5	0.72	0.608	1	0.987	0
	Resource Adequacy and Predictability	0.7	2.17	54.26	0.71	4	1.974	0.139	0.977	0.981	0.096
Contextual	Normative	0.79	2.61	43.59	0.74	6	0.709	0.701	1	0.982	0
	Regulative	0.84	2.98	59.69	0.83	5	0.371	0.869	1	0.993	0
	Culture	0.82	2.94	42.04	0.78	7	1.141	0.315	0.985	0.957	0.037
	Socio-Political-Economic	0.68	2.36	47.2	0.7	5	1.554	0.169	0.977	0.973	0.072
Disposition	Disposition	0.79	2.82	46.99	0.77	6	1.211	0.283	0.987	0.966	0.045
Characteristics of District Health Directorates	FMIIS	0.84	2.97	59.47	0.83	5	1.059	0.381	0.998	0.981	0.024
	Staff Capacity	0.75	2.41	60.2	0.78	4	1.863	0.155	1	0.983	0.090
	Functional Management Team	0.85	3.2	64.05	0.86	5	0.969	0.435	1	0.982	0
Sound Budgeting and Financial Management Practices	Sound Budget Practices	0.93	6.13	55.73	0.92	10	0.845	0.751	1	0.945	0
	Sound Financial Management Practices	0.92	6.92	57.71	0.93	12	0.752	0.899	1	0.946	0

Table 2, further shows that the data provided a good fit within the acceptable thresholds with Chi-square/df (cmin/df) ranging between 1.974 for resource adequacy and predictability and 0.371 for regulative influence and all within the standards of Chi-square (cmin/df), < 3 good; < 5 sometimes permissible. For Comparative Fit Index (CFI) criteria of > 0.95 great; > 0.90 traditional; > 0.80 sometimes permissible, the data achieved a range of 1 for six of the constructs and 0.977 for two constructs. Regarding Goodness of Fit Index) with acceptable range (GFI) > 0.95, with the exception of sound budgeting practices recording 0.94, all the rest performed above the standard. Additionally, the Root Mean Square Error of Approximation (RMSEA) evaluating criteria of < 0.05 good; 0.05-0.10 moderate; > 0.10 bad was also achieved with the highest 0.096 for resource adequacy and predictability.

4. Results

4.1. Study respondents

The majority of the respondents were males (86%). The age distribution of the respondents showed that about 23% were below 35 years old, 22% between 36 to 40 years and 20% between 41 to 44 years, the mean age was 41. In terms of their educational levels, 43% had below a bachelor's degree, 31% held a bachelor's degree and 26% have attained a master's degree or beyond. The data collected showed that about 40% of the respondents had been in their current position from 1 to 4 years, whereas about 32% had over 7 years experience at their post.

4.2. Statistical analysis

With the exception of characteristics of health directorates and contextual factors which recorded a correlation of 0.74, the remaining inter-item correlations were below 0.70 (See Table 3). Tolerance values ranged from 0.35 to 0.65 and the Variance Inflation Factor (VIF) showed values ranging from 1.60 to 2.83. In view of these diagnoses, all variables were retained for further analysis. The correlation results also indicate a positive relation between all variables as expected (See, Table 3).

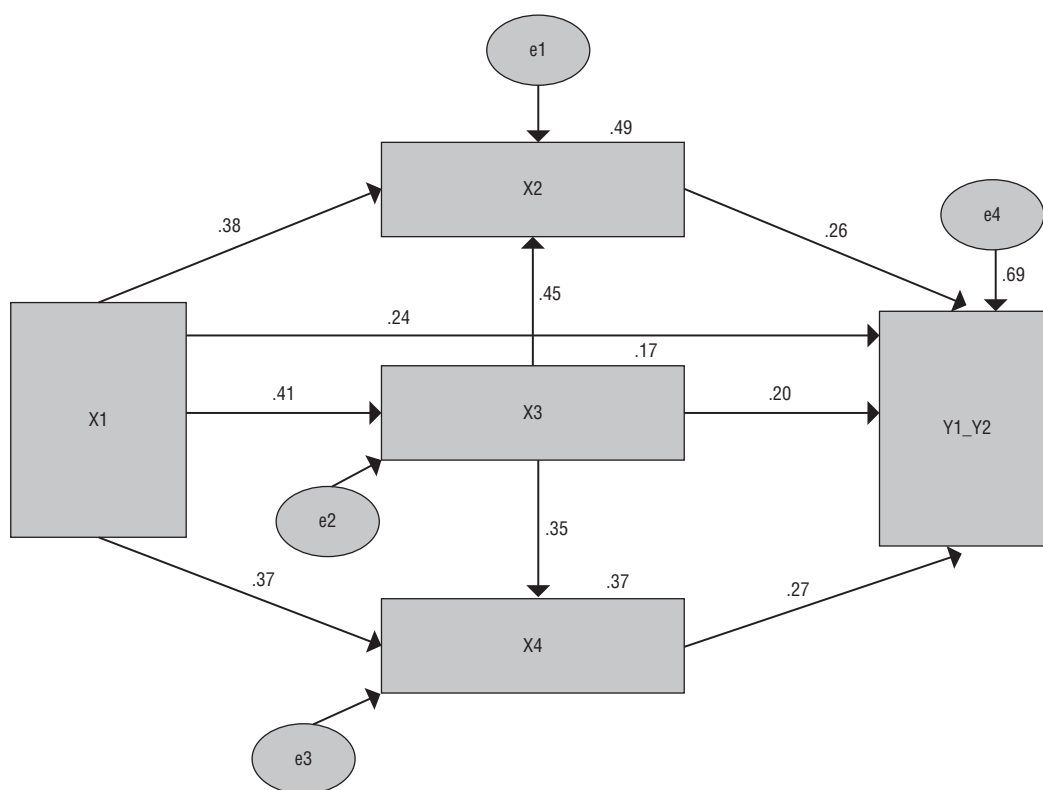
Table 3. **Correlation results for determinant of sound budgeting and sound financial management practices**

N = 107, Variable	1	2	3	4	5
1. Sound budgeting and Financial Management Practices	1				
2. Strategic planning	0.597**	1			
3. Contextual	0.702**	0.566**	1		
4. Disposition	0.577**	0.408**	0.604**	1	
5. Characteristics of DHD	0.675**	0.517**	0.740**	0.503**	1
Mean	5.18	5.5	5.04	5.09	4.51
SD	0.97	0.96	0.78	0.86	1.01
Min	3.48	3.66	3.59	3.5	2.22
Max	6.64	7.49	6.72	7.33	6.95

Source: Key: *** = $P < 0.001$, ** = $P < 0.05$, * = $P < 0.01$.

The conceptual model (Figure 3) developed for the study depicts the hypothesis that strategic planning, contextual factors, disposition of managers and characteristics of health directorates will have a positive relationship with sound budgeting and financial management practices. The results affirm this relationship with characteristics of health

Figure 3. Regression and path analysis results



Source: Key: X1 = Strategic Planning, X2 = Contextual Factors, X3 = Disposition, X4 = DHD Characteristics, Y1-Y2 = Sound Budgeting and Financial Management Practices, e1 - e6 = error.

Table 4. Relationships among determinants of sound budgeting and financial management practices

Hypothesized Relationship	Directions	Beta	t-values
X3	<--- X1	0.408***	4.600
X4	<--- X1	0.374***	4.422
X2	<--- X1	0.383***	5.030
X4	<--- X3	0.351***	4.152
X2	<--- X3	0.447***	5.870
Y1_Y2	<--- X1	0.241**	2.981
Y1_Y2	<--- X3	0.197*	2.380
Y1_Y2	<--- X2	0.259**	3.000
Y1_Y2	<--- X4	0.274***	3.520

Note: The coefficients in the cells are standardized beta values; *** = $p < 0.001$, ** = $p < 0.05$, * = $p < 0.01$.

Source: Key: X1 = Strategic Planning, X2 = Contextual Factors, X3 = Disposition, X4 = BMC Characteristics, Y1-Y2 = Sound Budgeting and Financial Management Practices.

directorates (beta = 0.274, $p < 0.001$) having the highest statistically significant and positive effect on sound budgeting and financial management practices, followed by contextual factors (beta = 0.259, $p < 0.05$), strategic planning (beta=0.241, $p < 0.05$) and disposition of management teams (beta = 0.197, $p < 0.01$). The adjusted r-square value of 0.59 indicates that the model explains 59% percent of the variations in sound budgeting and financial management practices.

Table 5. **Standardised total effect of the determinants on sound budgeting and financial management practices**

	X1	X3	X2	X4
X3	0.408	0.000	0.000	0.000
X2	0.566	0.447	0.000	0.000
X4	0.517	0.351	0.000	0.000
Y1_Y2	0.610	0.409	0.259	0.274
Total effect	1.552			
Percentage contribution	39.304	26.353	16.688	17.655

Source: Key: X1 = Strategic Planning, X2 = Contextual Factors, X3 = Disposition, X4 = BMC Characteristics, Y1-Y2 = Sound Budgeting and Financial Management Practices.

The examination of the total effects of the determinants of sound budgeting and financial management practices shows that strategic planning contributed the highest (39.30%) of the total effect 1.55. This was followed by the disposition of management teams (26.35%), characteristics of health directorates (17.66%) and contextual factors (16.70%). The implication is that strategic planning should be given the highest priority in an effort to improve sound budgeting and financial management practices. Strengthening strategic planning means prioritising to improve stakeholder participation, defining a clear policy content and providing adequate and predictable resource for planning and implementation. It is interesting to note the contribution of the disposition of management team, which placed second in an effort to strengthen budgeting and financial management practices. Strengthening management team disposition implies, team motivation and sustaining awareness of the importance of sound budget and financial management practices as well as commitment and acceptance to work within existing policies and standards.

Table 6. **Standardised direct effect of the determinants on sound budgeting and financial management practices**

	X1	X3	X2	X4
X3	0.408	0.000	0.000	0.000
X2	0.383	0.447	0.000	0.000
X4	0.374	0.351	0.000	0.000
Y1_Y2	0.241	0.197	0.259	0.274
Total	0.971			
Percentage contribution	24.820	20.288	26.674	28.218

Source: Key: X1 = Strategic Planning, X2 = Contextual Factors, X3 = Disposition, X4 = BMC Characteristics, Y1-Y2 = Sound Budgeting and Financial Management Practices.

The characteristics of implementing agencies (DHDs) accounted for the highest (28.22%) of the total direct effect of the determinant of sound budgeting and financial management practices (0.97). This underscores the fact that strengthening staff capacity, enhancing the functioning of the management teams and improving the use of financial management information systems will go a long way to ensuring effective implementation of sound budgeting and financial management practices. Contextual factors accounted for 26.67% of the direct effect of the determinants of sound budgeting and financial management practices. Therefore any effort to improve sound budgeting and financial management practices should take into account, the norm, regulations, cultural and socio-economic as well as political issues that impact on successful implementation. Strategic

planning, which had the highest total effect, continued to exert its importance to the direct effect, contributing 24.82%. Whilst disposition of management team placed second in the overall total effect. It accounts for the third position in considering the total direct effect, which stresses its importance as a mediating variable in the model to explain sound budgeting and financial management practices.

Table 7. Standardised indirect effect of the determinants on sound budgeting and financial management practices

	X1	X3	X2	X4
X3	0.000	0.000	0.000	0.000
X2	0.183	0.000	0.000	0.000
X4	0.143	0.000	0.000	0.000
Y1_Y2	0.369	0.212	0.000	0.000
Total	0.581			
Percentage contribution	63.511	36.489	0.000	0.000

Source: Key: X1 = Strategic Planning, X2 = Contextual Factors, X3 = Disposition, X4 = BMC Characteristics, Y1-Y2 = Sound Budgeting and Financial Management Practices.

Examining the indirect effect of the determinants of sound budgeting and financial management practices reveals that out of the total of 0.58, strategic planning makes a major contribution of 63.51%. Although, strategic planning makes an important contribution on its own to sound budgeting and financial management practices, there is the need for other variables to play their key roles for it to account for its expected impact. Disposition of management accounted for 36.50% of the indirect effect, which supported its major role as a mediating variable in the model employed to explain the implementation of sound budgeting and financial management practices.

5. Discussion and conclusion

5.1. Discussion of findings

The study borrowed insights from modern management theories, approaches to budgeting, financial management and policy implementation models, to illuminate understanding of determinants of sound budgeting and financial management practices at the local level of public administration. Reflecting on the theoretical perspectives, the conceptual model mirrored and supported the variables articulated in literature on policy implementation (Grizzle and Pettijohn, 2002; Chanddarasorn, 1997; Elmore, 1979-80; Lüder, 1992; Van and Van Horn, 1975). Results from this study present varying interpretations depending upon the angle of elaboration of the results. For instance, the characteristics of health directorates ($\beta = 0.274$ *** $p < 0.001$) stands out as the key priority of intervention if one considers the relationships among the variables and sound budgeting and financial management practices. This is further supported by the literature on implementation (Van and Van Horn, 1975) and contingency perspectives of financial management (Lüder, 1992; Grizzle and Pettijohn, 2002; Merchant, 1984 and Woodward, 1965). On this account, financial management information systems, requisite staff capacity and functioning of various oversight committees are important components of agency characteristics that need to be strengthened in an effort to improve sound budgeting and financial management practices.

From the account of the path analysis, strategic planning with 39% of the total effect of 1.55 surfaced as the key priority of intervention in a sequential approach in prioritising

to improve sound budgeting and financial management practices. The positive and significant effect of strategic planning on sound budgeting and financial management practices implies that the more stakeholders participate (Shah, 2007; Wong-On-Wing, Guo, and Lui, 2010; Chalos and Poon, 2000) and the clearer the policy content (Nakamura and Smallwood, 1980; Shileds and Young, 1993) with adequate and predictable resources (Chan, 2003; Chanddarasorn, 1997; Lüder, 1992; Pfeffer and Salancik, 1978), the better will be the implementation of sound budgeting and financial management practices.

In considering the direct effect, characteristics of health directorates, in other words implementing agency, with 29.22% of the 0.97 resurfaces as the key priority to focus on in an attempt to improve upon the implementation of sound budgeting and financial management practices. Strategic planning with 63.51% of 0.58 of the indirect effects shows its importance as key exogenous variable worthy of consideration in strengthening sound budgeting and financial management practices. This further buttresses the fact that the other endogenous variables are of paramount interest for strategic planning to play its major role in improving sound budgeting and financial management practices. The positive and significant effect of the disposition of management teams on sound budgeting and financial management practice supports other related literature (Jensen, 2003; Grizzle and Pettijohn, 2002; Sandalgaard, Bukh, and Poulsen, 2001). The implication is that managerial disposition consisting of motivation, awareness, participation, commitment, acceptance and training mediates efforts to strengthen the implementation of sound budgeting and financial management practices.

This brief discussion concludes that any effort to improve the implementation of sound budgeting and financial management practices at the decentralised level of public administration should take into account all the determinants studied because of their varying important contributions.

5.2. Conclusion

Schick's (1983) work *An Inquiry into the Possibility of a Budgetary Theory* imbued academicians to revisit the development of a budget theory. As part of Schick's conclusion, he stated that it may be more illuminating to examine budgeting from the perspectives of other disciplines than as a field of its own authority (Goggin, Bowman, Lester, and O'Toole, 1990) also pressed on the third-generation implementation scholars to develop clear operational instruments, and provide adequate empirical observations to test their hypotheses, however, only a few studies have so far followed this path (O'Toole, 2000: 268; deLeon, 1999: 318). The current research contributes to these recommendations and therefore developed and tested a model of implementation of sound budgeting and financial management practices. This was achieved through a review of theoretical insights on policy implementation models, organisation theory and approaches to budgeting and public financial management practices.

This study has provided critical determinants, which must be taken into account in an effort to strengthen sound budgeting and financial management practices at the implementation level of public administration. The result from the path analysis informs managers, policy implementers and all stakeholders as to which area and path of implementation to focus on in implementing budgeting and financial management practices. The conceptual model developed can also be applied to other public sector reform implementation and at various levels of governance. It must, however, be stated that the model is not prescriptive to solve the persistent lack of a theory of a budget, what

it does is to bring out the explicit insight of looking at budgeting and financial management from a multi-theoretical and multi-disciplinary perspectives.

In conclusion, strategic planning is critical to achieving sound budgeting and financial management practices in the public sector. Moreover, a holistic approach encompassing the articulation of contextual issues, disposition of management teams and characteristics of implementing agencies are essential to the implementation of sound budgeting and financial management practices.

The study respondents were mainly members of the district health management team, it will equally be important to consider the views of managers at national and regional levels with regards to budgeting and financial practices in the service. This will expand the scope of understanding as to whether practices at the national and regional levels exert considerable influence at the district level in implementing budgeting and financial management practices.

Bibliography

- Allen, R. and D. Tommasi (eds.) (2001), *Managing Public Expenditure: A Reference Book for Transition Countries*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264192607-en>.
- Andrew, M. (2006), "Beyond 'Best Practice' and 'Basics First' in Adopting Performance Budgeting Reform", *Public Administration and Development*, Volume 26 (2), pp. 147-161.
- Argyris, C. (1953), "Human Problems with Budgets", *Harvard Business Review*, Volume 1 (31), pp. 97-110.
- Barry, B.W. (1997), *Strategic Planning Workbook for Nonprofit Organisations*, St. Paul, MN: Amherst H. Wilder Foundation.
- Berman, P. and M.W. McLaughlin (1976), "Implementation of Educational Innovation", *Educational Forum*, Volume 3 (40), pp. 344-70.
- Bhuyan, A., A. Jorgensen and S. Sharma (2010), *Taking the Pulse of Policy: The Policy Implementation Assessment Tool*, Futures Group, Health Policy Initiative, Task Order 1, Washington, DC.
- Blau, P.M. (1970), "A formal theory of differentiation in organisations", *American Sociological Review*, Volume 35 (2), pp. 201-18.
- Bramley, G. and M. Stewart (1981), "Implementing Public Expenditure Cuts" in S. Barrett, and C. Fudge, *Policy and Action: Essays on the Implementation of Public Policy*, Methan and Co. Ltd., London.
- Budlender, D., R. Sharp and K. Allen (1998), *How to Do a Gender-Sensitive Budget Analysis*, Australian Agency for International Development/Commonwealth Secretariat, Canberra/London.
- Burns, T. and G.M. Stalker (1961), *The Management of Innovation*, Tavistock Publication, London.
- Cammack, J. (2007), *Building Capacity through Financial Management: A Practical Guide*, Oxfam GB, Oxford.
- Chalos, P. and M.C. Poon (2000), "Participation and performance in capital budgeting teams", Volume 12, pp. 199-229.
- Chan, J.L. (2003), "Changing Roles of Public Financial Management", in T. Bouvard and E. Loeffler, *Public Management and Governance*, pp. 101-111, Routledge, London.
- Chanddarasorn, V. (1997), "Public Sector Reform: A Hypothetical Model of Successful Reform Adoption and Implementation", *Asian Review of Public Administration*, Volume 1 (January-June 1997), VIX (1), pp. 233-247.
- Chandler, D. (1989), "Strategies et Structure de l'entreprise" (Editions d'Organisation, ed.).
- Chenhall, R.H. (2003), "Management control systems design within its organisational context: findings from contingency-based research and directions for the future", *Accounting, Organisations and Society*, Volume (28), pp. 127-168.
- Chenhall, R.H. and P. Brownell (1988), "The effect of participative budgeting on job satisfaction and performance: Role ambiguity as an intervening variable", *Accounting, Organisations and Society*, Volume 3 (13), pp. 225-33.

- deLeon, P. (1999), "The Missing Link Revisited", *Contemporary Implementation Research, Policy Studies Review*, Volume (16), pp. 311-338.
- Elmore, R.F. (1979-1980), "Backward Mapping, Implementation Research and Policy Decisions", *Political Science Quarterly*, Volume 94 (4), pp. 601-616.
- Feng-Yu, N. et al. (2005), *The Role of Trust in Supervisor in Budgeting System*, The 17th Asia-Pacific Conference on International Accounting Issues, Wellington, New Zealand.
- Fiedler, F. (1967), *A theory of leadership effectiveness*, McGraw-Hill, New York.
- Fölscher, A. (2007), "Participatory Budgeting in Asia", in A. Shah (Ed.) *Participatory Budgeting, Public Sector Governance and Accountability Series*, pp.157-189, The World Bank, Washington, DC.
- Fozzard, A. (2001), *The Basic Budgeting Problem Approaches to Resource Allocation in the Public Sector and their Implications for Pro-Poor Budgeting*, Overseas Development Institute, Centre for Aid and Public Expenditure, Westminster Bridge Road, London.
- Gibran, J.M. and A. Sekwat (2003), "Continuing Search for a Theory of Budgeting", *Journal of Public Budgeting Accounting and Financial Management*, Volume 4 (21), pp. 617-644.
- Goddard, A. (1997), "Organisational culture and budget related behaviour: A comparative contingency study of three local government organisations", *The International Journal of Accounting*, Volume 1 (32), pp. 79-97.
- Goggin, M.L. et al. (1990), *Implementation Theory and Practice: Toward a Third Generation*, Harper Collins, New York.
- Graham, A. (2011), *Financial Management for Managers*, Canadian Governance Support Office, CANADEM.
- Grizzle, G.A. and C. Pettijohn (2002), "Implementing performance-based programme budgeting: A system-dynamics perspective", *Public Administration Review*, Volume 62 (1), pp. 51-62.
- Gross, N., J.B. Giacuinta and M. Bernstein (1971), *Implementing Organisational Innovations*, Basic Books, New York.
- Gruening, G. (2001), "Origin and theoretical basis of New Public Management", *International Public Management Journal*, pp. 1-25.
- Hofstede, G.H. (1965), *The Game of Trust in Budget Control*, Van Gorcum.
- Hôgye, M. (2002), "Theoretical Approaches to Public Budgeting", *Local Government Budgeting Part 1*.
- Hopewood, A.G. (1976), *Accounting and Human Behaviour*, Englewood Cliffs: Prentice-Hall.
- Jensen, M.C. (2003), "Paying People to Lie: the Truth about the Budgeting Process", *European Financial Management*, Volume 9 (3), pp. 379-406.
- Kabo, S.K. (2004), *Manual on the Budget Process in Ghana and the Linkage with Ghana's Macro Economic Framework*. Prepare for Centre for Budget Advocacy, Integrated Social Development Centre (ISODEC) ISODEC, Accra.
- Khan, A. and B.W. Hildreth (2002), *Budget theory in the public sector*, Westport: Quorum Books.
- Khin, E.W. (2010), "Comparative Study of Budgeting Process Reforms within two International Accounting Organisations: Malaysia and Australia Perspectives", *Australian Journal of Basic and Applied Sciences*, Volume 6 (5), pp. 4142-4150.
- Lacasse, F. (1996), *Budget and Policy Making: Issues, Tensions and Solutions in O. f.-o. Development, Budgeting and Policy Making* (Vol. 8, pp. 23-52). Paris: Sigma Papers.
- Lawrence, P. and J.W. Lorsch (1967), "Organisation and Environment: Managing Differentiation and Integration", *Administrative Science Quarterly*, Volume 12 (1), pp. 1-47.
- LeLoup, L.T. (1983), "From Microbudgeting to Macrobudgeting: Evolution in Theory and Practice", in I.S. Rubin, *New Directions in Budget Theory*, pp.19-42, State University of New York Press, Albany.
- Leruth, L. and E. Paul (2008), "A Principal-Agent Theory Approach to Public Expenditure Management Systems in Developing Countries", *OECD Journal on Budgeting*, Volume 7/3, OECD Publishing, Paris, <http://dx.doi.org/10.1787/budget-v7-art16-en>.
- Lester, J. and M. Goggin (1998), "Back to the Future: The Rediscovery of Implementation Studies", *Policy Currents*, Volume 8 (3), pp. 1-7.
- Lipsky, M. (1971), "Street Level Bureaucracy and the Analysis of Urban Reform", *Urban Affairs Quarterly*, Volume 6, pp. 391-409.

- Lipsky, M. (1980), *Street-Level Bureaucracy: Dilemmas of the Individual in Public Service*, Russell Sage Foundation, New York.
- Lüder, K.G. (1992, A Contingency Model of Government Accounting Innovation in the Political Administration Environment, *Research in Governmental and Nonprofit Accounting* , 7, 99-127.
- Marko, J. (2009), "The institutional pillars of management accounting function", *Journal of Accounting and Organisational Change*, Volume 5 (4), pp. 444 - 471.
- Merchant, K.A. (1984), "Influence of Departmental Budget: An Empirical Examination of Contingency Model", *Accounting Organisation and Society*, Volume 9 (34), pp. 291-307.
- Meyers, R.T. (1996), "Is there a key to the normative budgeting lock?", *Policy Sciences* , Volume 29, pp. 171-188.
- Mikesell, J.L. (1991), *Fiscal Administration – Analysis and Applications for the Public Sector*, Brooks/Cole Publishing Company, Pacific Grove, California.
- Ministry of Health of Ghana (2010), *Independent Review Health Sector Programme of Work 2009. (Draft Final Report)*, Ministry of Health, Accra-Ghana.
- Musso, J., E. Graddy and J. Grizard (2006), "State Budgetary Processes and Reforms: The California Story", *Public Budgeting and Finance*, Volume 26, pp. 1-21.
- Najam , A. (1995), *Learning from the Literature on Policy Implementation: A Synthesis Perspective*, International Institute for Applied Systems Analysis [IIASA], Laxenburg, Austria.
- Nakamura, R.T. and F. Smallwood (1980), *The Politics of Policy Implementation*, St.Martin's Press, New York.
- O'Connor, N.G. (1995), "The Influence of Organisational Culture on the Usefulness of Budget Participation by Singaporean-Chinese Managers", *Accounting Organisation and Society*, Volume 20 (5), pp. 383-403.
- O'Connor, N.G. (1997), "Patterns of Cultural and Budgetary Controls in International Joint Ventures in South Korea", *Asian Review of Accounting*, Volume 5 (2), pp. 1-20.
- Oduro, K.N. (2003), "Results-Oriented Public Expenditure Management: Case Study of Ghana", *Working Paper 208*, Overseas Development Institute, London.
- Oliver, C. (1991), "Strategic Responses to institutional Processes", *Academy of Management Review*, Volume 16 (1), pp. 145-179.
- O'Toole, L.J. (2000), "Research on Policy Implementation, Assessment and Prospects", *Journal of Public Administration Research and Theory*, Volume 10, pp. 263-288.
- Pfeffer, J. and G. Salancik (1978), *The External Control of Organisations: A Resource Dependency Perspective*, Harper and Row, New York.
- Pollitt, C. and G. Bouckaert (2004), *Public Management Reform A Comparative Analysis*, Oxford University Press, Oxford.
- Pressman, J. L. and A. Wildavsky (1973), *Implementation: How Great Expectations in Washington Are Dashed in Oakland; Or, Why It's Amazing that Federal Programmes Work at All, This Being a Saga ... on a Foundation*, University of California Press, Berkeley.
- Pressman, J.L. and A. Wildavsky (1984), *Implementation*, University of California Press, Berkeley.
- Pretorius, C. and N. Pretorius (2008), "Review of Public Financial Management Reform", *Evaluation Working Paper/Evaluation Report EV698*, DFID, London.
- Republic of Ghana Financial Administration Act 2003, Act 654. (n.d.). Accra, Ghana.
- Republic of Ghana, Audit Service Act 2000, Act 584. (n.d.). Accra, Ghana.
- Republic of Ghana. Public Procurement Act, 2003, Act 663. (n.d.). Accra, Ghana.
- Robinson, M. and J. Brumby (2005), "Does Performance Budgeting Work? An Analytical Review of the Empirical Literature", *IMF Working Paper, WP/05/210*, International Monetary Fund, Fiscal Affairs Department.
- Rubin, I.S. (1990), "Budget Theory and Budget Practice: How Good the Fit?", *Public Administration Review*, Volume 50 (2), pp. 179-189.
- Rubin, I.S. (1993), *The Politics of Public Budgeting*, Second Edition, Chatham House, New Jersey.
- Sabatier, P. and D.A. Mazmanian (1983), *Implementation and public policy*, Scotts Foresman, Chicago.

- Sandalgaard, N., P.N. Bukh and S.C. Poulsen (2001), "The interaction between Motivational Disposition and Participative Budgeting Evidence from a Bank", *Journal of Human Resource Costing and Accounting*, Volume 15 (1), pp. 7-23.
- Schick, A. (1983), An Inquiry into the Possibility of a Budgetary Theory, in I.S. Rubin, *New Directions in Budget Theory* (pp. 59-69), State University of New York Press, Albany.
- Schick, A. (1998), *A Contemporary Approach to Public Expenditure Management*, World Bank Institute, Governance, Regulation and Finance Division.
- Scott, R.W. (2003), *Organisations: Rational, Natural and Open Systems*, Fifth Edition, Prentice-Hall, Upper Saddle River, New Jersey.
- Scott, R.W. (2008), *Institutions and Organisations Ideas and Interests Third Edition*, SAGE Publications, Inc., Thousand Oaks.
- Shah, A. (Ed.) (2007), *Participatory Budgeting*, International Bank for Reconstruction and Development/World Bank, Washington, DC.
- Shields, M.D. and M.S. Young (1993), "Antecedents and Consequences of Participative Budgeting Evidence on the Effects of Asymmetrical Information", *Journal of Management Accounting Research*, Volume 5, pp. 265-280.
- Short, J. (2003), *Country Case Study 4: Assessment of the MTEF in Ghana*, Overseas Development Institute, Africa Policy Department of the Department for International Development (DFID) U.K. in collaboration with the European Commission DG Dev., ODI Centre for Aid and Public Expenditure, London.
- Van, M.D. and H.C. Van Horn (1975), "The Policy Implementation Process: A Conceptual Framework", *Administration and Society*, Volume 6, pp. 445-488.
- Vroom, V.H. and J.G. Arthur (2007), "The Role of the Situation in Leadership", *American Psychologist*, Volume 62 (1), pp. 17-24.
- Wildavsky, A. (1992), "Political Implications of Budget Reform: A Retrospective", *Public Administration Review*, Volume 6 (56), pp. 594-599.
- Wildavsky, A. and N. Caiden (1997), *The New Politics of the Budgetary Process*, Longman.
- Wong-On-Wing, B., L. Guo and G. Lui (2010), "Intrinsic and Extrinsic Motivation and Participation in Budgeting: Antecedents and Consequences", *Behavioral Research in Accounting*, Volume 22 (2), pp. 133-153.
- Woodward, J. (1965), *Industrial Organisation: Theory and Practice*, Oxford University Press, London.
- World Bank (1998), *Public expenditure management handbook*, The International Bank for Reconstruction and Development, World Bank, Washington, DC.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

OECD Journal on Budgeting

The OECD journal on public sector budgeting, published three times per year. It draws on the best of the recent work of the OECD Working Party of Senior Budget Officials (SBO), as well as special contributions from finance ministries, and makes it available to a wider community in an accessible format. The journal provides insight on leading-edge institutional arrangements, systems and instruments for the allocation and management of resources in the public sector. Now published as a part of the *OECD Journal* subscription package.

This issue of the OECD Journal on Budgeting includes articles on the enhancing the finance function in line ministries, the spending reviews in Ireland, the budgeting in Sweden, and the determinants of sound budgeting and financial management practices at the decentralised level of public administration.

Consult this publication on line at <http://dx.doi.org/10.1787/budget-v16-2-en>.

This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases. Visit www.oecd-ilibrary.org for more information.

Volume 16/2

OECD publishing
www.oecd.org/publishing



ISSN 1608-7143
VOLUME 16
(3 ISSUES)
42 2016 43 1 P

