

**Unclassified**

**PUMA/SBO(98)5/REV1**



Organisation de Coopération et de Développement Economiques  
Organisation for Economic Co-operation and Development

**OLIS : 24-Jun-1998**

**Dist. : 29-Jun-1998**

PARIS

**Or. Eng.**

**PUBLIC MANAGEMENT SERVICE  
PUBLIC MANAGEMENT COMMITTEE**

**PUMA/SBO(98)5/REV1  
Unclassified**

**BUDGETING IN SWEDEN**

**67015**

Document complet disponible sur OLIS dans son format d'origine

Complete document available on OLIS in its original format

**Or. Eng.**

Complete document available on the Internet : <http://www.oecd.org/puma/>

Disponible également en français sous le titre:

*La procédure budgétaire en Suède*

©OCDE, 1998

Applications for permission to reproduce or translate  
all or part of this material should be made to:  
Head of Publications Service, OECD,  
2, rue André-Pascal, 75775 Paris Cedex 16 France

## Foreword

At their 1997 annual meeting, Senior Budget Officials requested the Secretariat to present at each annual meeting a report on the budgeting practices of a single Member country. This is designed to provide an overview of the budget process in the country under consideration and to offer an opportunity for other Member countries to comment on specific budgeting practices in the country under consideration.

Sweden agreed to be the first country where such an examination was conducted. The Secretariat collected information for this report by visiting Stockholm and conducting interviews with officials of the Ministry of Finance, line ministries, agencies, the finance committee of parliament, the National Audit Office and *Statskontoret*, the central agency responsible for management reforms in Sweden. The Secretariat would like to express its appreciation for the generous time provided by officials of these institutions.

The report is intended to be primarily descriptive in nature. The views expressed in the report are those of the Secretariat and should not be attributed to any organisation consulted for this project.

This paper was prepared by Jon Blondal of the OECD Public Management Service, and is published on the responsibility of the Secretary General of the OECD.

**TABLE OF CONTENTS**

Foreword .....3

EXECUTIVE SUMMARY .....5

*Chapter One* INTRODUCTION .....9

*Chapter Two* BUDGET FORMULATION PROCESS .....12

Introduction .....12

Multi-year budget framework .....13

The Cabinet Budget Meeting .....15

“Each Minister is his own Finance Minister” .....16

Conclusions .....18

*Chapter Three* THE ROLE OF PARLIAMENT .....20

Introduction .....20

The Approval Process .....21

Spring Fiscal Policy Bill .....21

The Budget Bill .....22

Conclusion.....24

*Chapter Four* MANAGERIAL FLEXIBILITY.....25

Ministries and Agencies .....25

Removal of Input Controls.....26

Collective Bargaining .....26

Accommodation .....28

Financial Management Instruments .....28

Conclusion.....29

*Chapter Five* ACCOUNTABILITY FOR RESULTS .....30

Introduction .....30

Specifying Results.....30

Reporting Results .....32

The Management Capacity of Ministries .....34

Conclusion.....35

Appendix I. Outline of Fiscal Consolidation Programmes.....37

Appendix II. List of Expenditure Areas.....38

Appendix III. Organisation Chart of the Budget Office.....39

## EXECUTIVE SUMMARY

During the past decade, Sweden has experienced a spectacular deterioration -- and then recovery -- of its budget balance. In the late 1990s, the budget had been brought back to balance.

The government believed that the budget process itself had contributed significantly to the deterioration of the public finances. The purpose of this report is to describe in detail the reforms introduced to the budget process in Sweden which coincided with the period of fiscal consolidation.

**Budget Formulation Process.** The key elements of the reforms to the budget formulation process included the adoption of a multi-year budget framework and a top-down budget process. A Spring Fiscal Policy Bill was introduced whereby parliament discusses the key aggregate figures in the budget framework ahead of the actual Budget Bill. The budget process was made more comprehensive by the inclusion of entities that had previously operated off-budget, primarily in the social security field. The principle of gross budgeting (separating revenues and expenditures) was adopted to increase transparency for certain transactions, again primarily in the social security field. This principle was, however, not applied to user charging for government services where its application was seen as a disincentive for levying user charging. All open-ended appropriations were abolished and became subject to annual scrutiny and authorisation, this applied primarily to various entitlement programmes. Furthermore, the fiscal year was changed to the calendar year (started previously in July) and the legal basis for budgeting was strengthened. This involved the enactment of a state budget act and additional measures in parliament's standing orders in relation to the budget process. In practice, this often meant codifying practices that had previously been subject to administrative decision or simply tradition.

Today, the budget formulation process is divided into three phases. Phase I centres around updating the *Multi-Year Budget Framework* which then forms the basis for the subsequent phases of the budget formulation process. This is the responsibility of the Ministry of Finance based on the critical review of information submitted by the spending ministries. Phase II is the *Cabinet Budget Meeting*. This is a two-day meeting at the Prime Minister's Retreat where resource allocation takes place on a macro level, i.e. the total level of funding for each of 27 Expenditure Areas. This is a collective Cabinet decision based on recommendations presented by the Ministry of Finance. The decisions reached in this meeting are incorporated into the Spring Fiscal Policy Bill presented to parliament. Phase III is where the Ministry of Finance largely withdraws from the details of the budget formulation process and "*Each Minister is His Own Finance Minister*", i.e. each minister is responsible for allocating the total level of funding for his respective Expenditure Area among individual appropriations. (There are 13 ministries so a minister can have responsibility for more than one Expenditure Area.) Phase III culminates with a final review by the Ministry of Finance and Cabinet of the allocations proposed by the spending ministers for each Expenditure Area.

**Role of Parliament.** Sweden has a history of minority governments. This has required successive governments to seek the support of opposition members of parliament in order to approve the

budget. As a result, the Swedish parliament has a more significant role in the budget process than in many other countries with a parliamentary system of government.

The process whereby parliament discussed the government's budget proposal could, however, until recently only be described as undisciplined. The level of government expenditures would invariably increase during parliament's discussion of the budget, often by as much as 1/2% from the government's proposed budget. It was a long process lasting five months from the time of the presentation of the government's budget proposal. The government's budget was incomplete when first presented to parliament with the government later proposing various and substantial changes to its original proposal. Initial debate about the budget was therefore difficult as many key proposals had not been presented at that time. The focus of debate was also on individual appropriations with little co-ordination or respect for aggregates. The exact amount of the budget was only certain at the end of the process.

The key reform implemented was the introduction of a top-down approach for discussing and approving the government's budget proposal. The approval process can be divided into three phases. As noted above, prior to the presentation of the budget, parliament approves *the level of aggregate government expenditures* (and aggregate government revenues) in a Spring Fiscal Policy Bill. The government's budget proposal must conform to this limit unless the government separately proposes a higher limit. Parliament's deliberation of the actual budget proposal is then divided into two distinct phases. First, parliament approves *the level of expenditures for each of the 27 Expenditure Areas*. Only then does parliament approve *the level of individual appropriations* within each of the 27 Expenditure Areas.

The committees of parliament play a key role in the budget deliberation and much of the fundamental work in reviewing the budget proposal takes place in committees. In this respect, there is a strong division of labour between the finance committee and the sectoral committees. The finance committee is responsible for the overall budget proposal and for recommending to parliament the level of aggregate expenditure and the division of aggregate expenditure into each of the 27 Expenditure Areas. The sectoral committees are responsible for allocating individual appropriations within their respective Expenditure Areas. For example, the finance committee will recommend the total level of expenditure in the agriculture Expenditure Area whereas the agriculture committee will recommend how that total should be allocated to individual appropriations within the agriculture Expenditure Area.

The sectoral committees are permitted to change the composition of appropriations in their relevant Expenditure Area but must remain within the agreed total for their Expenditure Area. Otherwise, proposals from sectoral committees will be invalidated and will not be permitted to be discussed in Parliament. Each sectoral committee must agree on a single set of recommendation for the Expenditure Area as a whole. There will therefore be 27 sets of majority recommendations. If a proposal does not have majority backing in the committee, it will not be reported out of committee. This is a new voting procedure and has been criticised for being overly restrictive, i.e. that proposed amendments can be "killed" in committee.

***Managerial Flexibility.*** In implementing the budget, managers enjoy great flexibility in the use of appropriations. This is partly due to the institutional organisation of public administration in Sweden; small policy ministries and a large number of agencies responsible for executing policies. All restrictions on running costs inputs have been systematically removed in recent years, including for personnel management and accommodation. The carry-forward of unused appropriations and a facility to borrow against next year's appropriations have also been introduced.

Personnel management in Sweden has historically been decentralised with the outstanding exception of collective bargaining arrangements. Directors-general of agencies are, and have been, responsible for the recruitment, grading and dismissal of their staff. There are no restrictions on whom they may hire. There is no "civil service" encompassing the government as a whole. Staff are not tenured in Sweden. They can typically be dismissed at 2-12 months notice depending on how long they have been employed by the agency. In fact, there are essentially no differences between the employment legislation governing the public sector and the private sector in Sweden.

In 1994, collective bargaining was totally devolved to the agencies and is now the responsibility of the director-general of each agency. The cost of personnel is now one of the many items of expenditure that directors-general must manage within the limits of their single appropriations. There is no longer any automatic adjustment to their budgets to compensate for pay agreements that are concluded. The Ministry of Finance and the parliament no longer have any direct influence on the contents of the collective bargaining agreements establishing the salaries and other conditions of employment for government staff. The agreements are negotiated entirely on the instruction of the agencies.

Another reform was allowing agencies to carry-forward their unused appropriations. This was designed to avoid end of year spending binges which are an inherent problem of the annual budget process. Another objective was to increase discipline on managers as any overspending in the year gets carried over as well. It was also intended to foster efficiency gains in agencies beyond those assumed in the budget as any gains would be retained by the agency. Without the carry-forward option, it was considered that managers would not have sufficient incentives for seeking efficiency gains in their operations. The government also introduced a facility for borrowing funds against future appropriations, normally up to the level of 3%. The borrowing facility is hardly used at all.

**Accountability for Results.** The quid pro quo for the increased managerial flexibility is that managers be held accountable for results. This is a fundamental change; holding managers responsible for what they do, not how they do it. Instead of controlling inputs, the focus is now on outcomes and outputs.

This accountability regime is based on ministries specifying results they expect of their agencies and the agencies then reporting to ministries on the results that they have achieved. The application of this accountability regime has, however, encountered problems. This is widely recognised in Sweden. Some of the problems are to be expected when any new system is being introduced and will be overcome as more experience is gained. Many of the problems, however, have an institutional aspect to them which relate primarily to the management capacity of ministries. Ministries tend to have very little interest in the management of agencies and this facilitated the increased managerial flexibility enjoyed by agencies. The flip side of this, however, is that the ministries have limited capacity for specifying results expected of agencies and monitoring their performance -- both of which are essential elements of the new accountability regime.

The vehicle for specifying results is the Letters of Instruction (*Regleringsbrev*) which the ministries issue to each agency immediately following parliament's approval of the budget. The Letters of Instruction reviewed for this study revealed a great diversity in their contents. This may, however, not in fact represent any real differences in the level of instruction provided by the ministries to their agencies. The detailed specification of outputs would appear to originate from the agencies themselves as the ministries simply would not have had the capacity to prepare them to such levels of detail. The detailed Letters of Instruction therefore probably give an impression of more guidance from ministries than is really the case. The danger in the new system is that representations are being made of an accountability regime that may not necessarily hold true.

The relationship between ministries and agencies in Sweden has traditionally been based on informal dialogue. The relationship implied by the new Letters of Instruction would alter that system; in fact, they would represent a culture shock if applied as thoroughly as originally envisaged. They would also involve substantial transaction costs as ministries would have to upgrade their resources significantly if they were to be able to issue detailed Letters of Instruction without relying on the agencies. The value of such an investment can be seriously questioned.

An alternative approach may be for the ministries and agencies to continue their informal dialogue but for the agencies to then submit draft Letters of Instruction to the ministries detailing what outputs they intend to produce in support of the agency's objectives as they understand the objectives to be based on the dialogue with the ministry. The ministry would review the draft Letters of Instruction and make any amendments before formally approving them. Formal approval by the ministry serves the purpose of providing reference marks for the review of the agency's operations. This approach would appear to only make transparent what is current practice in many cases. It would also clarify the roles of the ministries and the agencies in specifying outputs and recognise the key roles that agencies will inevitably play in such an exercise.

Nonetheless, the role of the ministries needs to be strengthened in this area. The organisational structure of the ministries would appear to involve a bias against the management aspect of their work. There is no senior position devoted to management issues. All the top functions are primarily political or legal in nature. An official commission in Sweden has previously recommended that this anomaly be remedied by the establishment of the position of under-secretary for management. There would appear to be clear and compelling reasons to institute this recommendation. Management issues need a stronger voice in the ministries than at present and the position of under-secretary for management would provide that voice at the highest levels of the ministries.

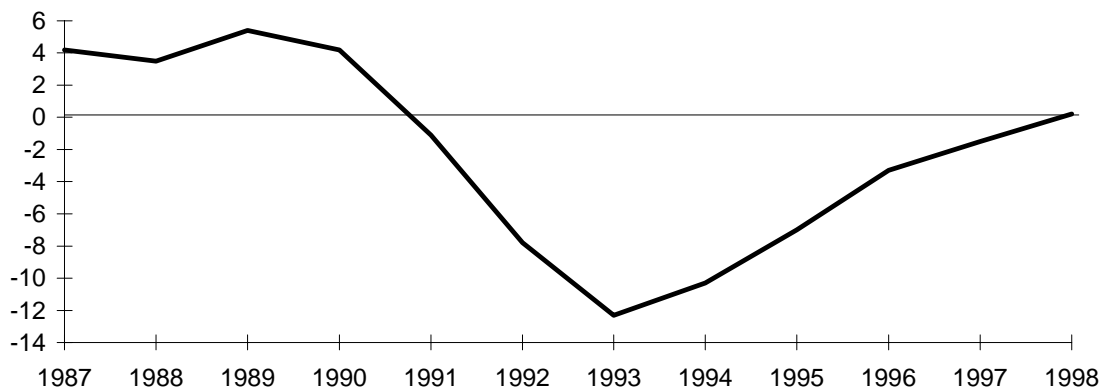


*Chapter One*

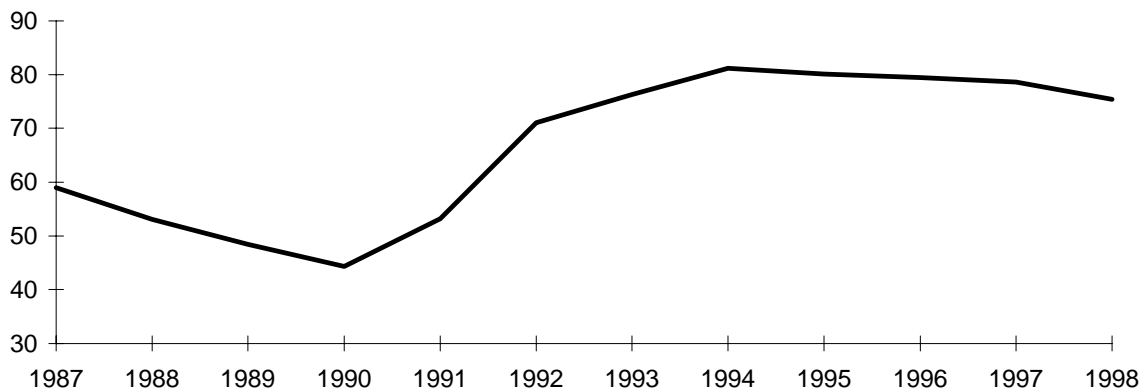
**INTRODUCTION**

From enjoying the largest budget surpluses of any Member country in the late 1980s, Sweden went into having the largest budget deficits of any Member country in the early 1990s. These huge budget deficits were accompanied by a massive increase in government debt. In a span of just five years, the level of debt had nearly doubled. In the late 1990s, the budget had been brought back to balance.

**Figure 1 -- General Government Financial Balance 1987 - 1998  
as % of GDP**



**Figure 2 -- General Government Gross Debt 1987 - 1998  
as % of GDP**

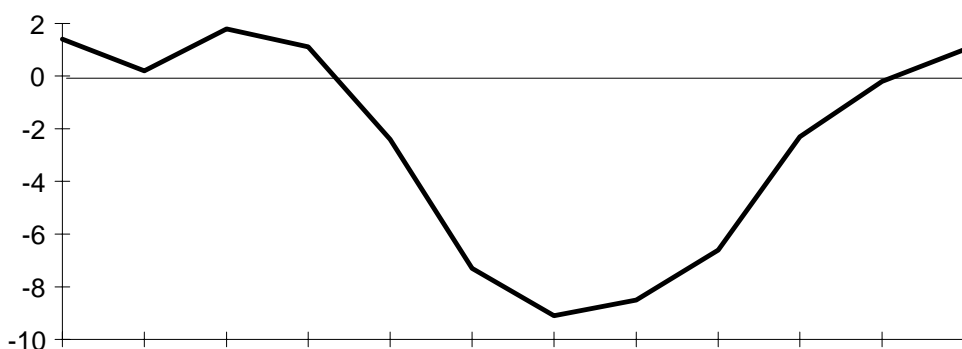


The deterioration of the budget balance was a reflection of the overall state of the Swedish economy at the time. Sweden was in the midst of its worst recession since the 1930s. The reasons for this are complex and debatable. In its 1994 *Economic Survey of Sweden*, the OECD concluded that the

recession was caused “by misguided policies during the 1980s”. The sequencing of structural reforms in the economy had created unforeseen problems. “Deregulating financial markets before removing the tax incentives in favour of loan-financed consumption and speculative investment created a ‘bubble economy’ [in the late 1980s] with overheated product and labor markets”. Then when the bubble was about to burst, a major tax reform was introduced. “This implied a significant upward shift in real after-tax interest rates - for many households they became positive for the first time -- and a marked lowering in equilibrium property prices”. This served to further reinforce the severely depressed demand in the economy. “These developments were allowed to run their course without much corrective influence from macroeconomic policy”.

It has been estimated that the economy went from operating at up to 5 per cent above potential in the late 1980s while in the early 1990s the economy was operating as low as 3.9 per cent below potential. This is a immense swing in such a short period of time. In fact, a much different picture of the budget situation emerges if one attempts to disaggregate the budget balance into its structural component and its cyclical component. This reveals that the significant budget surpluses in the late 1980s reflected the overheating of the economy. There was only limited improvement in the underlying structural balance which registered only marginal surpluses for most of the period. Similarly, the sharply deteriorating deficits in the early 1990s can be attributed to cyclical factors to a significant extent.

**Figure 3 -- General Government Structural Balance 1987-1998  
as % of GDP**



In response to the unprecedented deterioration of the budget position, the government embarked on a fiscal consolidation programme that is among the most ambitious of any undertaken by an OECD Member country. Restoring public finances became the primary objective of economic policy. The financial markets (especially the currency markets) exerted strong pressure on how rapidly the fiscal consolidation programme was implemented. The budget situation was seen by the markets as simply being out of control. This necessitated rapid action in order to restore confidence in the Swedish economy. A summary of the fiscal consolidation measures is presented in Appendix I.

The government also believed that the budget process itself had contributed significantly to the deterioration of the public finances. The purpose of this report is to describe in detail the reforms introduced to the budgeting process in Sweden. The discussion is divided into four parts. Chapter II discusses the budget formulation process. Chapter III discusses the role of parliament in the budget process. Chapters IV and V focus on the implementation of the budget. Chapter IV discusses the flexibility enjoyed by budget-holders in implementing the budget whereas Chapter V discusses the new accountability for results regime in place as a quid pro quo for this increased flexibility. As the report covers the entire budgeting cycle, the report offers a general overview of public management in Sweden.

In reading this report it should be borne in mind that Sweden has generally been at the forefront of developments in budgeting and public management. The reforms introduced in Sweden following the fiscal crisis built on an already modern framework in most respects and the reforms themselves had been under discussion in Sweden prior to the crisis. The fiscal crisis simply offered a window of opportunity to implement them in a comprehensive manner over a very short time span.

## *Chapter Two*

### **BUDGET FORMULATION PROCESS**

#### **Introduction**

Sweden's budget formulation process has undergone fundamental change during the past four years in response to the Swedish authorities belief that the budget process itself had contributed significantly to the deteriorating state of the budget balance in Sweden.

The key elements of the reforms include the adoption of a multi-year budget framework and a top-down budget process. A Spring Fiscal Policy Bill was introduced whereby parliament discusses and approves the key aggregate figures in the budget framework. The budget process was made more comprehensive by the inclusion of entities that had previously operated off-budget, primarily in the social security field. The principle of gross budgeting (separating revenues and expenditures) was adopted to increase transparency for certain transactions, again primarily in the social security field. This principle was, however, not applied to user charging for government service where its application was seen as a disincentive for levying user charging. All open-ended appropriations were abolished and became subject to annual scrutiny and authorisation, this applied primarily to various entitlement programmes. Furthermore, the fiscal year was changed to the calendar year (started previously in July) and the legal basis for budgeting was strengthened. This involved the enactment of a state budget act and additional measures in parliament's standing orders in relation to the budget process. In practice, this often meant codifying practices that had previously been subject to administrative decision or simply tradition.

The discussion in this chapter is organised around the three phases of the new budget formulation process in Sweden:

- Phase I: The Multi-Year Budget Framework
- Phase II: The Cabinet Budget Meeting
- Phase III: "Each Minister is His Own Finance Minister"

Phase I centres around updating the Multi-Year Budget Framework which then forms the basis for the subsequent phases of the budget formulation process. This is the responsibility of the Ministry of Finance based on the critical review of information submitted by the spending ministries.

Phase II is the Cabinet Budget Meeting where resource allocation take place on a macro level, i.e. the total level of funding for each of 27 Expenditure Areas is decided. This is a collective Cabinet decision based on recommendations presented by the Ministry of Finance. The decisions reached in this meeting are incorporated into the Spring Fiscal Policy Bill presented to parliament.

Phase III is where the Ministry of Finance largely withdraws from the details of the budget formulation process and "Each Minister is His Own Finance Minister", i.e. each minister is responsible

for allocating the total level of funding in his respective Expenditure Area among individual appropriations. (There are 13 ministries so a minister can have responsibility for more than one Expenditure Area.) Phase III culminates with a final review by the Ministry of Finance and Cabinet of the allocations proposed by the spending ministers for each Expenditure Area.

<b>The Budget Formulation Timetable</b>	
<b>January-March</b>	Ministry of Finance updates the Multi-Year Budget Framework based on budget submissions from spending ministries
<b>Mid March</b>	Minister of Finance presents to Cabinet his budget recommendations for the coming year and the following two years.
<b>End March</b>	Cabinet Budget Meeting takes place where the total level of expenditure for the coming year and the following two years is approved as well as indicative funding levels for each of 27 Expenditure Areas
<b>15 April</b>	Minister of Finance presents the government's Spring Fiscal Policy Bill to parliament
<b>April-May</b>	Spending ministries finalise allocations among individual appropriations within their respective Expenditure Areas
<b>15 June</b>	Parliament approves the government's Spring Fiscal Policy Bill with any amendments
<b>June-August</b>	Budget documentation prepared.
<b>Early September</b>	Cabinet agrees on the final budget proposal to be presented to parliament.
<b>20 September</b>	Budget bill is presented to Parliament.

### **Multi-year budget framework**

Sweden employs a multi-year budget framework as the basis for the annual budget process. It has a three year time horizon, i.e. the upcoming budget and the two following years.

The multi-year budget framework provides the link between the government's fiscal policy objectives in a macroeconomic context and their application in an operational context. It operates on three cascading levels. The first level constitutes the articulation of the government's fiscal policy objectives in macroeconomic terms. For example, Sweden's fiscal consolidation programme called for a stabilisation of government debt by 1996; a maximum deficit of 3% of GDP by 1997 and a balanced budget by 1998. The current fiscal policy objectives call for a long-term goal of a 2% of GDP surplus on average each year. In 1999, the target is a 0.5% of GDP surplus; a 1.5% of GDP surplus in 2000, and a 2% of GDP surplus in 2001. At the second level, these objectives are translated into a maximum level of total expenditure based on certain economic assumptions. At the third level, the limit for total expenditure is further operationalised by giving indicative funding levels for each of 27 Expenditure Areas (see box).

The multi-year budget framework is legally binding. The parliament approves the maximum level of total expenditure for the government (*Level 2*) and the indicative level of funding for each of the 27 Expenditure Areas (*Level 3*). The limits are stated in nominal terms. The total for the indicative level of funding for the 27 Expenditure Areas is less than the maximum level of total expenditure. This difference constitutes the "budget margin". For example, the budget margin in year 1 is 1.5%; 2% in year 2; and 2.5% in year 3. The purpose of the budget margin is to provide a buffer against any forecasting

errors so that the maximum level of total expenditure approved by parliament will not have to be amended.

### **The 27 Expenditure Areas**

There are about 500 appropriations in the Swedish budget. There are separate appropriations for running costs, transfer programmes and capital outlays. A majority of the appropriations are for running costs, mainly for the operations of agencies.

An innovation in the recent budget reforms was to divide all government appropriations into 27 Expenditure Areas. These are listed in Appendix I. This is the basis on which the Spring Fiscal Policy Bill and the Budget Bill is presented to parliament. Previously, the appropriations were divided by the ministries responsible for the appropriations. The 27 Expenditure Areas were proposed by parliament which wanted a clearer presentation of expenditures on individual policy areas than was afforded by the division by ministry. It was also designed to reflect the committee structure in parliament.

As there are 13 ministries in Sweden, a minister can be responsible for more than one Expenditure Area. There are also instances of two or more ministers being responsible for a single Expenditure Area. In such cases, the responsibility for each appropriation within the Expenditure Area is assigned to the respective minister. Despite this apparent complexity, Swedish officials emphasised that this presentation is working very well.

As a multi-year budget framework is in place, the starting point in the annual budget exercise is to update the information for year 2 in the framework. The multi-year budget framework therefore provides an “anchor” for the annual budget process and thereby fosters discipline. Sweden had employed multi-year forecasts prior to the latest reforms but they were in no way binding and they were not formulated on a rolling-basis. Rather, each year started with new multi-year forecasts being prepared with no reconciliations with prior forecasts.

The Ministry of Finance starts by re-examining the macroeconomic outlook for the coming year to see if the economic assumptions applied in the multi-year budget framework remain valid. The updated macroeconomic outlook plays a key role in determining the stance of budget policy. For example, higher than assumed economic growth would make additional resources available for the coming year. Recent experience has shown that the economic assumptions have been biased downwards. The funds that have been “made available” due to this have been applied to reducing the deficit at a more accelerated rate. They have not been used to fund new spending measures.

The Ministry of Finance emphasises, however, that they use their best professional judgement in formulating the economic assumptions for the multi-year budget framework and that they do not systematically employ “overly prudent” economic assumptions in this regard. The Ministry of Finance does examine economic forecasts prepared by financial institutions and other leading organisations in arriving at their own economic forecasts. The economic assumptions used by the Ministry of Finance are, however, not subject to review by any outside body. It should be noted that previously, the economic assumptions employed by the Ministry of Finance had tended to be overly optimistic. Two institutional reasons are cited for the improved quality of the economic assumptions. First, the change in fiscal years to the calendar year has made the time-series of economic data match with the budget, thus eliminating the adjustments that had to be made in each case. Second, a re-organisation within the Ministry of Finance brought the economic forecasting work closer to the budgeting area than had been the case

previously. The corrective impact of the economic crisis can, however, not be underestimated in this regard either.

At the same time as the Ministry of Finance re-examines the economic assumptions contained in the budget framework, each spending ministry will be re-examining the assumptions underlying the indicative funding levels provided to them in the multi-year budget framework. In early February, each spending ministry submits to the Ministry of Finance their budget proposal for the coming year plus forecasts for the following 4 years (although only the first 2 forecast years will be applied for the updated multi-year budget framework).

The budget submissions are to be divided into funds necessary for “maintaining current policy” and funds for “new policy initiatives.” The former category therefore involves updating previously forecasted funding levels. The role and contents of the budget submissions are discussed further later in this chapter.

The Ministry of Finance critically reviews the budget submission supplied by the spending ministries as they have a tendency to overestimate the necessary funding required. At this stage, technical discussions take place between officials of the Ministry of Finance and their counterparts in spending ministries to clarify any differences they may have concerning the underlying assumptions for selected budget submissions.

The Ministry of Finance maintains a competency to “second guess” ministries in this respect. The Ministry of Finance focuses its efforts especially on transfer programmes. The Ministry of Finance has, for example, established their own independent models for projecting expenditure trends for major transfer programmes. The focus on transfer programmes is in recognition of the fact that the updated funding levels for running cost and capital appropriations tends to deviate little whereas significant deviations can take place in the area of transfer programmes.

Based on their critical review of the budget submissions from spending ministries, the Ministry of Finance prepares its budget recommendations for Cabinet. The Ministry of Finance recommends the total level of expenditure and indicative funding levels for the 27 Expenditure Areas for the coming budget and the following two years. The total level of expenditure for the coming budget year and the following year must be in accordance with the maximum specified in the multi-year budget framework already in place. No information is released on specific aspects of the recommendations until the recommendations are presented in their entirety to Cabinet. The Ministry of Finance only consults spending ministries to clarify technical details as stated above. The Ministry of Finance also presents to Cabinet the entire set of budget submissions from spending ministries for information. The Ministry of Finance does not comment on individual budget submissions for specific appropriations but rather uses them as “building blocks” for the aggregate numbers. If, however, the Ministry of Finance recommends lower level of funding for an Expenditure Area, it will have specific recommendations in this regard if the responsible minister objects to them. This is especially the case for transfer programmes.

### **The Cabinet Budget Meeting**

The recommendations of the Ministry of Finance are presented to members of the Cabinet several days prior to the Cabinet Budget Meeting at the end of March. The Cabinet Budget Meeting takes place at the Prime Minister’s Retreat which is located outside of Stockholm. The Meeting generally lasts two days. It is attended by ministers, and deputy ministers from the Ministry of Finance and the Prime

Minister's Office. Senior officials from the Ministry of Finance and the Prime Minister's Office are also present to provide additional information as requested.

It should be emphasised that there have been no Cabinet Meetings related to the budget prior to this and that no Cabinet committees exist on budget matters. The Minister of Finance would only have consulted the Prime Minister on his recommendations prior to submitting them to Cabinet. Specifically, the finance minister's recommendations for the indicative funding levels for each Expenditure Area would not have been discussed with the responsible ministers on a bilateral basis prior to the Cabinet Budget Meeting. This is also the first time that ministers will have the opportunity to see the original budget submissions of their colleagues.

The discussions at the Cabinet Budget Meeting generally centre on ministers seeking additional resources for initiatives within their respective Expenditure Areas. They will do this by seeking to reallocate resources from other Expenditure Areas. Otherwise, they will have to finance these initiatives by reallocations within their respective Expenditure Areas. In 1998, the Ministry of Finance had an explicit threshold of 50 million kroner (\$6 million) for initiatives to be considered at the Cabinet Budget Meeting, or they had to be judged so politically important as to justify them being discussed at this stage. This threshold serves to ensure that marginal increases are financed from cuts elsewhere rather than adding up to a large total. This also serves to limit discussion to major transfer programmes at these meetings.

Ministers have to "digest" a tremendous amount of information during the Cabinet Budget Meeting. They have relatively little time available for preparing for this meeting. This would appear to be designed to avoid "leap-frogging," whereby one minister's proposal being agreed in isolation which may then form a justification for the agreement of other proposals and thereby undermining budget discipline. By having all the decisions in one meeting, there is a clearer focus on the bottom line and increased recognition of the fact that agreeing to one proposal will require corresponding cuts in other areas. It can be argued that this limited time frame hinders efficient resource allocation between the 27 Expenditure Areas. It does, however, serve to foster aggregate fiscal discipline.

At the end of the Meeting, the Cabinet will have agreed to a level of total expenditure for the coming year and the following two years, in addition to indicative funding levels for each of the 27 Expenditure Areas. The budget decisions reached at this meeting are then formalised in the confirmed minutes of the Cabinet Meeting and in the Spring Fiscal Policy Bill. This serves to make the decisions reached at the meeting more binding as it is more difficult for ministers to seek any changes to the decisions. This serves a very important function in the subsequent phase of the budget process. The Spring Fiscal Policy Bill is discussed further in the Chapter III.

#### **"Each Minister is his own Finance Minister"**

It must be emphasised that all the above decisions are taken at the level of the Expenditure Areas, not at the level of each appropriation. It is only in the third phase of the budget process that decisions on each appropriation are taken. These decisions are taken by the ministers responsible for each Expenditure Area. "Each minister is his own finance minister" within the limits set for his Expenditure Area. The Ministry of Finance largely withdraws from the budget formulation process during this phase. This has given the spending ministers greater ownership over their respective budget proposals and made them more likely to identify lower priority programmes within their Expenditure Areas to finance higher priority initiatives.



The spending ministries have two months following the Cabinet Budget Meeting to prepare their initial allocations to individual appropriations. They must submit these to the Ministry of Finance by mid-May. The Ministry of Finance may question specific allocations made by spending ministries although this rarely occurs. This is one indication of the responsibility that individual ministers have assumed over their respective budget proposals. It is only in the most exceptional circumstances that the level of funding for an Expenditure Area would be increased in this phase and it would have to be accompanied by corresponding cuts in another Expenditure Area. The final budget proposal is agreed by Cabinet in early September. The Budget Bill is presented to Parliament on 20 September.

It is during this phase that performance information enters the budget formulation process. The original budget submissions to the Ministry of Finance that are used for updating the multi-year budget framework tend to average only 2-3 pages in length per appropriation. They contain only financial information. The Ministry of Finance views performance information as having an *indirect* influence on appropriations in most cases. The incremental impact of performance information is of such a magnitude that it can be accommodated for by reallocations from within a given Expenditure Area. Furthermore, the spending ministries are in the best position to judge the merit of performance information and it would be inappropriate to have such detailed information accompany each budget submission to the Ministry of Finance.

The performance information is contained in the annual reports of each agency. These reports are published by March of each year. The annual reports are discussed in further detail in Chapter V. Agencies tend to comment on the limited use that is made of performance information in the budget process. This may be partly explained by the fact that agencies overestimate the role that performance information can play in the budget process and that they do not fully recognise (or accept) that performance information is now to be considered only in this phase of the budget process and not in the original budget submissions submitted to the Ministry of Finance or in the Cabinet Budget Meeting. It may also be explained by the limited capacity of spending ministries to apply performance information during this phase of the budget process. The spending ministries tend to be organised in such a way that budget and management functions are the responsibility of the same officials that have responsibility for each policy function. This model has its disadvantages. The top officials of each spending ministry tend to focus on political and legal matters rather than management issues. As a result, the use of performance information as an aid in allocating appropriations may suffer. It has been recommended that the management function in the spending ministries be strengthened, as is discussed further in Chapter V.

#### **Previous Experience with Performance Information**

It should be noted that Sweden experimented in the early 1990s with very detailed budget submissions to the Ministry of Finance which placed strong emphasis on performance information. This experiment did not yield great success and a reaction against the use of performance information by ministries may have been the result. Essentially, all agencies were to prepare in-depth assessments of their activities every three years. The assessments that were prepared by the agencies were universally positive about every single aspects of their activities. This had the effect that many considered the agencies themselves incapable of reporting on their own operations and this may account for the limited use that some ministries make of the annual reports prepared by the agencies. This experiment also resulted in agency budget submissions that were “the size of telephone books”. It was simply unfeasible to process this information in the budget formulation process and this may account for the very short budget submissions that the Ministry of Finance now requests. It should be noted that the agencies did not believe they had received sufficient guidance from their ministries in order to conduct the in-depth assessments.

A key element of this last phase of the budget process is also the drafting of the budget documentation itself. It consists of twelve volumes: an overview plus eleven documents where discussion of each of the 27 Expenditure Areas takes place. The budget documentation has been modernised in recent years and does not have a “legal document” feel to it. It is more comparable to corporate annual reports. Each ministry is responsible for preparing the initial discussion of its respective Expenditure Area. These are then forwarded to the Ministry of Finance for review and editing to ensure that the budget has a consistent message in line with the policy decisions adopted by Cabinet. The overview document is prepared by the Ministry of Finance and, inter alia, contains a wealth of economic data to relate the budget to the macroeconomic situation.

As is noted in Chapter III, parliament has voiced concern about the quality of the performance information that is presented in the budget documentation. It is considered too dispersed and overly focused on outputs rather than policy relevant outcomes. Action is being taken by the government in this area. It would seem appropriate for ministries to place increased emphasis on bringing together the various output information that it receives from their agencies and highlighting how specific outputs are contributing to the policy relevant outcomes. This is further discussed in the Chapter V.

#### **Supplementary Budgets**

Supplementary budgets are presented to parliament twice a year -- in April coinciding with the Spring Fiscal Policy Bill and in September coinciding with the Budget Bill. Increased funding for transfer programmes, notably unemployment benefits and specific transfers to municipal and county governments have been the major components of the supplementary budgets. Increased funding for these areas has been financed by reductions in other Expenditure Areas and by increases in revenue (consistent with the budget margin). It should be noted that successive supplementary budgets have been getting smaller. For example, the supplementary budget presented in April 1998 was only one-fifth the size of the supplementary budget submitted in April 1997.

#### **Conclusions**

The Swedish budget formulation process has been transformed in recent years. It is now a top-down exercise based on a multi-year budget framework encompassing all of the government’s activities. This transformation has taken place over a relatively short period of time and appears to be based on solid foundations. No officials interviewed for this study expressed a desire to return to the old system. It is also noteworthy how successfully the Ministry of Finance has been able to delegate responsibility to spending ministries in this new top-down budget environment.

The budget process has shown itself to be quite effective in maintaining aggregate fiscal discipline. The true test of this will, however, come in the near future as the “crisis atmosphere” that required fiscal consolidation goes away. Allocative efficiency in the budget process is fostered by the decentralised nature of the final allocation of funds to appropriations within each Expenditure Areas. It would, however, appear to be hampered by the very limited time frame that Cabinet has to agree to allocations among the 27 Expenditure Areas, as previously noted.

It should be noted that the budget proposal is presented on cash-basis to parliament. The annual reports of agencies and the government’s consolidated financial report are, however, presented on accrual-basis. It is currently under study to present the budget to parliament on accrual-basis as well but no

decisions have been taken in this regard. Parliament has voiced hesitations about the desirability of this move.

Finally, the role of performance information in the budget process needs to be clarified as it appears to be viewed quite differently by the Ministry of Finance, the line ministries and the agencies.

### *Chapter Three*

## **THE ROLE OF PARLIAMENT**

### **Introduction**

Sweden has a history of minority governments. This has required successive governments to seek the support of opposition members of parliament in order to approve the budget. As a result, the Swedish parliament has a more significant role in the budget process than in many other countries with a parliamentary system of government.

The process whereby parliament discussed the government's budget proposal could, however, until recently only be described as undisciplined. The level of government expenditures would invariably increase during parliament's discussion of the budget, often by as much as 1/2% from the government's proposed budget. It was a long process lasting five months from the time of the presentation of the government's budget proposal. The government's budget was incomplete when first presented to parliament with the government later proposing various and substantial changes to its original proposal. Initial debate about the budget was therefore difficult as many key proposals had not been presented at that time. The focus of debate was also on individual appropriations with little co-ordination or respect for aggregates. The exact amount of the budget was only certain at the end of the process.

It had been recognised by the authorities for some time that a more effective and efficient process was required. Formal work was initiated in the early 1990s when parliament established a Commission of Inquiry to formulate proposal for making the budgetary work of the parliament "faster, more effective, and easier to understand". The fiscal crisis in the early 1990s added urgency to the need for reform. During 1996 and 1997, fundamental changes were made to the manner in which parliament approves the budget.

A number of the reforms described in the previous chapter originated from the work of the Commission of Inquiry. A new and binding timetable, with the calendar year as the fiscal year, was established. The government may now not amend its initial budget proposal except in exceptional circumstances. The development of the 27 Expenditure Areas originated from this work as well. As these reforms have been described previously, this chapter focuses on the new approval process for the budget that has been adopted by the parliament.

### **The Riksdag**

The Swedish parliament, the *Riksdag*, is a unicameral legislature with 349 seats. There are 29 constituencies for elections to parliament. A total of 310 of the seats in parliament are “fixed seats”, i.e. divided on a permanent basis among the 29 constituencies. The remaining 39 seats are “equalising seats”, i.e. divided after each election among the political parties in each constituency to reflect the national popular vote and achieve proportional representation. Elections are now held every four years (previously every three years). The next election is scheduled for September 1998. There are currently seven political parties represented in the parliament.

### **The Approval Process**

The key reform implemented was the introduction of a top-down approach for discussing and approving the government’s budget proposal. The approval process can be divided into three phases. Prior to the presentation of the budget, parliament approves the level of *aggregate government expenditures* (and aggregate government revenues) in a Spring Fiscal Policy Bill. The government’s budget proposal must conform to this limit unless the government separately proposes a higher limit. Parliament’s deliberation of the actual budget proposal is then divided into two distinct phases. First, parliament approves the level of *expenditures for each of the 27 Expenditure Areas*. Only then does parliament approve the level of *individual appropriations* within each of the 27 Expenditure Areas. Each of the three phases is discussed below.

#### **The Parliamentary Budget Timetable**

<b>15 April</b>	Government presents Spring Fiscal Policy Bill to Parliament
<b>Early June</b>	Parliament approves Fiscal Policy Bill
<b>20 September</b>	Government presents Budget Bill to Parliament. Expenditures are divided into 27 Expenditure Areas which are in turn divided into 500 individual appropriations.
<b>End November</b>	Parliament approves in one vote the total expenditures for each of the 27 Expenditure Areas.
<b>End December</b>	Parliament approves individual appropriations within each of the 27 Areas with one vote for each Expenditure Area
<b>1 January</b>	Start of fiscal year

### ***Spring Fiscal Policy Bill***

The government presents the Spring Fiscal Policy Bill to parliament no later than 15 April each year. This is five months prior to the budget proposal being presented to parliament.

The Spring Fiscal Policy Bill presents proposed limits on aggregate government expenditures (and aggregate government revenues) for the coming budget and the following two years. Parliament debates these aggregate limits and enacts them into law in early June. There are no restrictions on parliament’s ability to amend the government’s proposal.

A key aim of the Spring Fiscal Policy Bill is to cast budget policy in a macroeconomic setting. There is a very strong macroeconomic orientation to the commentary that accompanies the Spring Fiscal

Policy Bill; much of it is devoted to an assessment of the current economic situation and medium-term economic prospects. The Minister of Finance and other government members focus their remarks in parliament on the macroeconomic situation and how budget policy relates to it. The Bill is referred to the finance committee and is then debated in parliament.

The Spring Fiscal Policy Bill has created a vehicle whereby debate in parliament can focus on the appropriate size of the public sector and the economic impact of various combinations of aggregate revenues and aggregate expenditures. As such, it can help prepare the ground for any difficult decisions that the budget proposal may contain.

The government has chosen to include in the Spring Fiscal Policy Bill indicative information on the division of aggregate expenditure into the 27 Expenditure Areas. This division is not binding as parliament only approves the level of aggregate expenditure at this stage. Opposition parties have also chosen to present their alternatives to the government's Spring Fiscal Policy Bill at this stage and the different choices they would make in funding the 27 Expenditure Areas. It can be argued that this debate is taking place too early in the budget process and that it pre-empted the subsequent phases of the approval process. However, one must recognise that presenting this information at this stage to parliament strengthens the hand of the Ministry of Finance in the budget formulation phase, as noted in the previous chapter.

### ***The Budget Bill***

The government's budget proposal is presented to parliament no later than 20 September. The aggregate level of expenditure must be in line with the amount approved by parliament in the Spring Fiscal Policy Bill unless the government separately proposes a higher limit. As mentioned above, the budget proposal is divided into the 27 Expenditure Areas which are in turn divided into 500 individual appropriations.

The Budget Bill is for general consideration in parliament in September and October. In fact, the fall session of parliament is devoted largely to the budget proposal and related legislation. Members of parliament have until 7 October to present any motions to amend the budget proposal. There are no restrictions on the amendments that can be made to the budget proposal as long as the limit on aggregate expenditures established in the Spring Fiscal Policy Bill is respected.

Parliament must approve the division of aggregate expenditure into each of the 27 Expenditure Areas by the end of November. Following this, parliament approves individual appropriations within each of the 27 Expenditure Areas in late December. This is designed to facilitate the reallocation of resources from one Expenditure Area to another and to counter the tendency to focus on individual appropriations rather than the overall direction and trends in government expenditure.

The committees of parliament play a key role in budget deliberations and much of the fundamental work in reviewing the budget proposal takes place in committees. In this respect, there is a strong division of labor between the finance committee and the 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 individual appropriations within their respective Expenditure Areas. For example, the finance committee will recommend the total level of expenditure in the agriculture Expenditure Area whereas the agriculture committee will recommend how that total should be allocated to individual appropriations within the agriculture Expenditure Area.

In early October, the budget proposal is referred to the finance committee. As noted above, it is responsible for proposing to parliament any changes to the total level of expenditures in each of the 27 Expenditure Areas. It may increase funding for one policy area and lower funding for another policy area. The finance committee seeks the views of the sectoral committees on the level of funding for their relevant policy frames. 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. The finance committee also reviews the economic assumptions of the budget and the revenue side of the budget at this time. In mid November, the finance committee presents its recommendations to parliament on the division of aggregate expenditures into each of the 27 Expenditure Areas. Parliament discusses these and votes on them at the end of November.

Following the approval of the funding levels for each of the 27 Expenditure Areas, the finance committee withdraws from direct participation in the budget approval process while the sectoral committees allocate funding to individual appropriations within their relevant Expenditure Areas. Although the level of funding for their Expenditure Areas is only agreed at the end of November, the sectoral committees will have commenced the review of their individual appropriations prior to the end of November. The heads of the relevant government organisations will be called on by the sectoral committees to provide further information on their funding request although these practices do vary in individual committees. The focus of the reviews, however, is more and more on the performance of the relevant organisation or programme. As is described in a following chapter, parliament does not exercise control of the inputs that government organisations and programmes use in their operations. Most government organisations receive one single appropriation for their running costs. The quid pro quo for granting this flexibility was that information would be supplied to parliament on the outcomes and outputs of government organisations and programmes. There appears to be dissatisfaction in parliament with the quality of the information supplied by the government in this regard. Parliament would prefer to receive more policy relevant outcome information rather than disaggregated output information. The government has in fact announced that it views improving the performance information supplied to parliament as a priority.

Following their reviews of individual appropriations, the sectoral committees present their proposals. The sectoral committees are permitted to change the composition of appropriations in their relevant Expenditure Area but must remain within the agreed total for their Expenditure Area. Otherwise, its proposal will be invalidated and will not be permitted to be discussed by Parliament. The sectoral committees must agree on a single set of recommendations for the Expenditure Area as a whole. There will therefore be 27 sets of majority recommendations. If a proposal does not have majority backing in the committee it will therefore not be reported out of committee. This is a new voting procedure and has been criticised for being overly restrictive, i.e. that proposed amendments can be “killed” in committee. The parliament discusses the budget proposal and decides on the appropriations within each Expenditure Area. The budget for the next year is approved immediately before the Christmas recess.

Finally, the resources available to parliament when discussing the budget has increasingly become an issue. The committees rely largely on cost calculations submitted by the Ministry of Finance or the respective line ministries when discussing the budgetary impact of various amendments under consideration. Although there appears to be confidence in the cost calculations prepared by the ministries, there have been calls to set up an independent budget office for the parliament in order not to be dependent on the executive branch on such matters. There have also been calls to increase the resources available to opposition political parties so that they can better prepare credible alternatives to the government’s Spring Fiscal Policy Bill.

## **Conclusion**

The budget process that parliament has adopted is comprehensive and disciplined. It is marked by an acceptance of parliament to heed to a set of binding budgetary constraints when discussing the budget. The number of amendments approved in parliament to the government's budget proposal has decreased significantly following the adoption of the new budget process. For the 1998 budget, only a handful of reallocations were made within Expenditure Areas. This is not necessarily a function of the new budget process, but rather of the fact that the present government enjoys a stronger position in parliament than many previous governments. In fact, the true test of the new budget process is how well it will operate under alternative electoral circumstances.

Concerns have been voiced that presenting the division of total expenditures into the 27 Expenditure Areas at the time of the Spring Fiscal Policy Bill has pre-empted subsequent stages of the approval process and that the new voting procedures in parliament whereby all amendments can be "killed" in committees is too restrictive. These concerns are being actively discussed in parliament at present.

It is clear, as the government has recognised, that the performance information presented to parliament needs to be improved. This would serve to both increase the quality of discussion in parliament and to sustain the abolition of input controls and the vast managerial flexibility now enjoyed by government organisations.

Finally, it would appear likely that the resources available to parliament when discussing the budget will increase in future, either in the form of increased resources for the political parties themselves or for increased non-partisan resources, such as expanded staffing levels at committees or the creation of an independent budget office responsible to parliament.



## *Chapter Four*

### **MANAGERIAL FLEXIBILITY**

In implementing the budget, managers enjoy great flexibility in the use of appropriations. This is partly due to the institutional organisation of public administration in Sweden; small policy ministries and a large number of agencies responsible for executing policies. All restrictions on running cost inputs have been systematically removed in recent years, including for personnel management and accommodation. There is also an elaborate system in place to promote effective financial management practices in this devolved environment, including the use of interest-bearing accounts and the carry-forward of unused appropriations and a facility to borrow against next year's appropriation. This chapter discusses each of these areas in turn.

#### **Ministries and Agencies**

No restructuring of government organisation was required as a prerequisite for management reforms in Sweden. The separation of policy and operational functions into ministries and agencies has been a hallmark of Swedish government organisation for over 200 years. The structure of government reforms that a number of Member countries were implementing in the 1980s and 1990s were well established in Sweden in the late 1700s.

Today, there are 13 ministries and about 300 agencies in Sweden. The ministries are very small in size with between 100 and 350 staff each. The agencies vary greatly in size; the smallest ones have fewer than 10 staff while the largest ones employ tens of thousands of staff. Approximately 99% of government employees are employed by the agencies; the remaining 1% are employed by the ministries. The mismatch of staff resources does not appear to impede the work of the ministries. They view their small size as a great asset, allowing for easier and faster communication and co-ordination among ministries. There were no complaints of agencies "withholding" information from their ministries; there was "constant" dialogue between the two. The relationship between ministries and agencies has evolved over a long time in Sweden and appears to work quite well.

The demarcation between policy and operational functions can of course be a grey area. What emerged clearly from discussions is that ministries do not get involved in the management of agencies. In fact, some agencies complained of the "total" disinterest of ministries in their management. The ministries focus on managing the policy interface with decision-makers -- co-ordination with other ministries, preparing proposals for cabinet, seeing legislation through parliament and, most recently, dealing with matters arising from Sweden's accession to the European Union. This has great advantages in terms of facilitating managerial flexibility as is discussed in this chapter. It does, however, create problems for holding agencies accountable for their performance as is discussed in the next chapter of this report.

The management of agencies is vested in the director-general of each agency. Directors-general are appointed on a fixed-term basis. The average tenure of directors-general is 7 years and the

government has a policy of actively promoting renewal at the directors-general level. Directors-general are appointed by Cabinet decision. The responsible minister and the Prime Minister, however, play the primary role in selecting directors-general. These are, however, considered non-political appointments and directors-general do not resign at the change of government.

There are no restrictions on whom the Cabinet may appoint. There is no formal “career system” or “senior executive service” in Sweden. The great majority of directors-general have a public sector background, although there are examples of directors-general being recruited from the private sector. The position of director-general is, however, not advertised. Rather, ministers “identify” suitable candidates. This has been criticised and there would appear to be room for increased transparency in the recruitment of directors-general, for example by advertising vacancies and by explicitly stating the criteria upon which directors-general will be selected. Notwithstanding this, the persons selected as directors-general are generally recognised as very capable individuals.

Most agencies have boards associated with them. Most do not function as governing boards but rather as advisory boards. Board members are often politicians, either members of parliament or municipal politicians, or representatives of special interest groups affected by the agency’s operations. The boards have been heavily criticised with many officials describing them as irrelevant at best. The government has adopted a flexible approach with regards to the boards. Some agencies will have no boards; other agencies will have advisory boards; and a number of agencies will have “boards of full responsibility” which are to act in a similar fashion as boards of directors for private sector enterprises. In this case, the director-general would be responsible to the board, which in turn would be responsible to the ministry.

A number of serious concerns can be raised about the concept of “boards of full responsibility”. First, it would blur the role of director-general and the accountability of agencies to ministries. Second, board members would lack in the necessary professional skills to effectively guide the work of the agencies. Third, the special interest group background of board members would be inappropriate if they are to function as governing boards. The last two concerns are based primarily on the persons previously selected by the government as board members. There would appear to be ample justification for these concerns; directors-general as the clear heads of agencies has been quite effective as the model for governing agencies in Sweden.

### **Removal of Input Controls**

As a general rule, agencies now receive one single appropriation to fund all of their running costs with no restrictions on the choice of inputs. The last two centrally determined inputs, collective pay bargaining and accommodation were abolished in the mid 1990s. The objective was to give directors-general total responsibility for all of their operations. As noted earlier in this report, there are separate appropriations for transfer programmes and capital outlays.

### ***Collective Bargaining***

Personnel management in Sweden has historically been decentralised with the outstanding exception of collective bargaining arrangements. Directors-general of agencies are, and have been, responsible for the recruitment, grading and dismissal of their staff. There are no restrictions on whom they may hire. There is no “civil service” encompassing the government as a whole. Vacancies are generally advertised in the press with all qualified applicants being treated equally. Staff are not tenured

in Sweden. They can typically be dismissed at 2-12 months notice depending on how long they have been employed by the agency. In fact, there are essentially no differences between the employment legislation governing the public sector and the private sector in Sweden.

Collective bargaining arrangements have historically been very centralised. A National Collective Bargaining Office concluded central pay agreements with the unions representing the staff of agencies. The agreements were then approved in Cabinet and received consent from the finance committee of parliament. Agencies had no flexibility to offer different pay than what was concluded in the central pay agreements.

Prior to the current reforms, Sweden had embarked on a course away from this very centralised regime by introducing a two-tier collective bargaining system. This meant that a central agreement was reached with the unions that called for a pay rise that consisted of a minimum fixed amount to be distributed to all staff and a "pay kitty" whose distribution was then negotiated between each agency and the unions at each agency. The unions are divided into separate bargaining units for each agency. Over the years, a rising proportion of the total wage settlement took place at the agency level.

Nonetheless, these were "central" agreements in character and agency appropriations were fully adjusted to reflect the settlement. It had been recognised for some time that this centralised system was at odds with the general philosophy that directors-general should be responsible for the operations of their agencies. Central collective bargaining made an outside force responsible for a significant portion of an agency's resources. Full devolution would also serve to depoliticize the pay negotiations.

In 1994, collective bargaining was totally devolved to the agencies and is now the responsibility of the director-general of each agency. The cost of personnel is now one of the many items of expenditure that directors-general must manage within the limits of their single appropriation. There is no longer any automatic adjustments to their budgets to compensate for pay agreements that are concluded. The Ministry of Finance and the parliament no longer have any direct influence on the contents of the collective agreements establishing the salaries and other conditions of employment for government staff. The agreements are negotiated entirely on the instructions of the agencies.

Although collective bargaining is totally devolved to the agencies, the two-tier structure of the negotiations has remained largely in tact. The agencies now form a Confederation of Government Employers for negotiating purposes. Concurrently, the share of the total settlement that is negotiated at each agency has increased significantly. It is estimated that about 3/5 of the total wage settlement is now negotiated at each agency. The negotiations at each agency are very much based on the performance of each individual staff member. It is common for staff holding the same job titles to be paid differently based on their performance. The individualisation of pay would appear to be generally accepted in the public sector in Sweden. It is estimated that over 90 per cent of government employees now have individualised pay. The unions have demonstrated a co-operative attitude in developing and implementing the new collective bargaining arrangements.

There is only limited experience with this new framework, but it is predominantly positive. The agencies have welcomed their increased responsibility for wage formation, and employer policies in general, fostered by this new system. The agreements that have been reached have been within the cash limits of agency appropriations. This is not attributed directly to the institutional framework of the Confederation of Government Employers, but rather to the "immense" peer pressure that directors-general exert on each other for responsible settlements. In fact, it remains to be seen whether the Confederation is simply a transitional institution that will be dissolved as more experience is gained with the totally devolved collective bargaining system. This would apply especially to some of the larger agencies.

### ***Accommodation***

A single government organisation enjoyed a monopoly over supplying all government organisation with offices and other accommodations. It charged rent for its services but agencies were automatically compensated for any increase in the charges. This central control was abolished in 1993. Government agencies now have the freedom to choose their accommodation. They can simply give notice and get their accommodations supplied by the private sector.

The government agency responsible for supplying accommodation was abolished and its assets split among three organisations. Heritage assets, such as the royal palaces, were grouped in one organisation. All remaining assets were grouped into two state-owned enterprises. Universities and other academic buildings were placed in one company while all other assets were grouped in a second company. The companies are to charge market rent for their accommodations.

This reform coincided with a sharp downturn in the property market. As a result, some agencies found it advantageous to move to less expensive accommodation, or to get superior quality accommodation at the same cost. This created a potential conflict of interest between the agencies when viewed in isolation and the government as a whole which was left with surplus accommodations. This, however, never became a public issue in Sweden and within the government it was viewed simply as a transitional cost on the way to a more efficient system in the long-term.

The freedom to choose accommodations, however, could not be enjoyed equally by all agencies. Some agencies occupied very special accommodations, prisons and museums being outstanding examples. This does not appear to have caused tensions as such. These agencies complain, however, that there is no such thing as market rent for their accommodation and want to renegotiate their lease agreements as they feel they are being made to pay unreasonable and excessive rent for their accommodation. This is currently the subject of government investigation.

### **Financial Management Instruments**

Efficient financial management has been a key feature of management reforms in Sweden.

Accrual accounting has been introduced in agencies. This reform was considered essential as managers now enjoy total flexibility in their choice of inputs and therefore require information on the full cost of each input to be able to manage effectively. The introduction of accrual accounting would appear to have proceeded relatively smoothly as the quality of the previous accounting system was very high. For example, complete and up-to-date registers of assets had always been maintained. Although some officials viewed the introduction of accrual accounting as essentially a technical exercise, most do recognise the increased quality of the cost information. The budget and all appropriations are, however, on a cash-basis (or a modified cash-basis) as noted earlier.

Appropriations for running costs are now deposited into the agency's interest-bearing account, normally at the rate of one-twelfth each month. If an agency spends their appropriations at a slower rate, it is paid interest on the balance in the account. Similarly, if an agency spends their appropriations at a faster rate, then it must pay interest to reflect the government's cost of borrowing. Agencies of course vary greatly in their ability to time individual transactions but this system has served to increase consciousness of cash management in agencies.

Another reform designed to improve the management of cash was allowing agencies to carry-forward their unused appropriations. This was designed to avoid end of year spending binges which are an inherent problem of the annual budget process. Another objective was to increase discipline on managers as any overspending in the year gets carried over as well. It was also intended to foster efficiency gains in agencies beyond those assumed in the budget as any gains would be retained by the agency. Without the carry-forward option, it was considered that managers would not have sufficient incentives for seeking efficiency gains in their operations.

There were two concerns raised about the carry-forward system. First, some believed that “time bombs” were being built up as the level of unused appropriations carried-forward is quite substantial. Second, the Ministry of Finance (and line ministries) were accused of taking the level of funds available for carry-forward excessively into account in the annual budget negotiations. This, however, would not appear to be the case as the Ministry of Finance explicitly rejected a proposal to “confiscate” the carry-forward funds during the fiscal crisis. The Ministry believed that this would undermine the objectives of the reforms. The Ministry of Finance now has a policy of investigating cases only where agencies continue year on year to accumulate surplus funds.

The government also introduced a facility for borrowing against future appropriations, normally up to the level of 3 per cent. The borrowing facility is hardly used at all. In cases where it is used, it is primarily for agencies that have overspent their appropriations, overspending which they must “repay” from future appropriations. This is very rare in Sweden.

A special type of mandatory borrowing facility was also introduced. These are loans to finance investment in computers and other administrative equipment. The primary motivation for creating this borrowing facility was however to rationalise investment decisions and foster better management of administrative equipment by being able to even out their cost over their useful life. The borrowing facility can also be seen as working hand in hand with the new accrual accounting regime as the length of the loans is equal to the useful life of the equipment being purchased. The loans bear market-rates of interest.

## **Conclusion**

In no OECD Member country do managers enjoy greater flexibility in the management of their organisations than in Sweden. It is testimony to the quality of management in Swedish government organisations that they have been able to use this flexibility successfully.

Annual surveys of customer perception of service quality levels in both private sector and public sector organisation in Sweden reveal an improving general satisfaction with the level of service in public sector organisations. Sweden has also conducted extensive surveys of public sector productivity trends. These reveals that productivity has shown a sharp upturn in recent years. Causality links are of course hard to establish, but hard budget constraints and increased managerial flexibility is at the very least consistent with increased service quality levels and increased productivity.

Two main concerns were voiced in this area. The first centres around the boards associated with agencies. The present boards are viewed very negatively in Sweden and there would appear to be ample reasons to question the option of having “boards of full responsibility”. The second major concern centred around the recruitment process for new directors-general. There would appear to be significant room to increase the transparency in this area. Both of these concerns have been described earlier in this chapter.

## *Chapter Five*

### **ACCOUNTABILITY FOR RESULTS**

#### **Introduction**

The previous chapter outlined the great flexibility that managers enjoy. The *quid pro quo* for this increased flexibility is that managers be held accountable for results. This is a fundamental change; holding managers responsible for what they do, not how they do it. Instead of controlling inputs, the focus is now on outcomes and outputs.

This accountability regime is based on ministries specifying the results they expect of their agencies and the agencies then reporting to the ministries on the results that they have achieved. The application of this accountability regime has, however, encountered problems. This is widely acknowledged in Sweden. Some of the problems are to be expected when any new system is being introduced and will be overcome as more experience is gained. Many of the problems, however, have an institutional aspect to them which relate primarily to the management capacity of ministries. The previous chapter noted that ministries had very little interest in the management of agencies and that this had facilitated the increased managerial flexibility enjoyed by agencies. The flip side of this, however, is that the ministries have limited capacity for specifying the results expected of agencies and monitoring their performance -- both of which are essential elements of the new accountability regime.

The information in this chapter focuses on *substantive* results and not *financial* results. The system of assigning financial management ratings for agencies is, however, discussed in a special box in this chapter.

#### **Specifying Results**

The budget document is not the primary vehicle for conveying information on the expected results of agencies. As noted previously, appropriations are not based on specific outcomes or outputs but are rather a single lump sum to cover the entire running costs of the agency.

The vehicle for specifying results is the Letters of Instruction (*Regleringsbrev*) which the ministries issue to each agency immediately following parliament's approval of the budget. The Letters of Instruction symbolise the changes that have occurred in public management in Sweden. Its original purpose was to communicate to agencies specific input controls. Following the abolition of the input controls, the Letters of Instruction were "relaunched" as a vehicle to communicate to agencies the expected results of their operations in terms of outcomes and outputs.

The new accountability regime therefore calls for ministries to specify the desired results of their agencies in the Letters of Instruction. According to Ministry of Finance guidelines, their contents must include a review of how the agency's work contributes to the government's desired outcomes; a

specification of objectives and targets at an operational level and how the agency is to report back on the results achieved; and specification of any special assignment that the agency is commissioned to carry out.

The new style Letters of Instruction have, however, not lived up to this expectation. The Letters of Instruction reviewed for this study revealed a great diversity in their contents. At one extreme, some Letters of Instruction were designed with a contract-like level of detail whereby specific outputs were listed in great detail and targets established for measuring the agency's performance in producing those outputs. At the other extreme, there were examples of Letters of Instruction that indicated practically no results information. They simply referred to the general objectives of the agency as stated in the legislation establishing the agency and contained no specific definitions of outputs or performance measures. In between these extremes, there were examples of Letters of Instructions whereby the ministry indicated that an agency should place special emphasis on performing a certain activity, but did not give any comprehensive directions to the agency.

First, there is a belief by some that the new style Letters of Instruction are attempting to impose a contractual approach to Swedish public management which they believe to be at odds with the traditional interchange between ministries and agencies. This relationship has up to now been characterised by dialogue, informality and flexibility; a more contractual approach, it is presumed, would have a significant and negative impact on this relationship. Although this argument was not voiced directly by many, it would appear that a number of officials have hesitations about the new system based on its implied contractual nature.

Second, some officials view the detailed output specification that is to be contained in the Letters of Instruction as an intrusion on their managerial autonomy. A number of officials voiced this concern in terms of outputs being *overspecified* and thus becoming an unreasonable interference on the management of agencies (which may be a valid argument); some officials, however, viewed *any* output specification as an intrusion on the management prerogatives of agencies (which cannot be considered a valid argument).

There is always a danger that one can take output specification too far and that such output controls could erode managerial flexibility in agencies no less so than the traditional input controls did. Sweden, however, would appear to be far from even approaching this problem at present. The fact that most officials are cognisant of this danger is also a source of confidence in Sweden not encountering this problem in future years. This should not be confused with the rather naive view expressed by some that any attempts at output specification should be resisted. The current situation was described by one agency official as a "golden age" for public management; the input controls had been removed while no effective output controls had been established. This may not be a widely held view but it is dangerous nonetheless because it undermines the foundation on which today's managerial flexibility is based and will make this flexibility unsustainable in the long term.

Third, and rather contradictory to the first two observations, the variety of detail in the Letters of Instruction described above may not in fact represent any real differences in the level of instruction provided by the ministries to their agencies. The detailed specification of outputs would appear to originate from the agencies themselves as the ministries simply would not have had the capacity to prepare them to such levels of detail. This is commented on further in the next section. The detailed Letters of Instruction therefore probably give an impression of more guidance from ministries to agencies than is really the case. The danger in the new system is that representations are being made of an accountability regime that may not necessarily hold true. This has serious implications for the long-term sustainability of the reforms.

As noted above, the relationship between ministries and agencies in Sweden has traditionally been based on informal dialogue. The relationship implied by the new style Letters of Instruction would alter that system; in fact, they would represent a culture shock if applied as thoroughly as originally envisaged. They would also involve substantial transaction costs as ministries would have to upgrade their resources significantly if they were to be able to issue detailed Letters of Instruction without relying on the agencies. The value of such an investment can be seriously questioned.

An alternative approach may be for the ministries and agencies to continue their informal dialogue but for the agencies to then submit draft Letters of Instruction to the ministries detailing what outputs they intend to produce in support of the agency's objectives as they understand the objectives to be based on the dialogue with the ministry. The ministry would review the draft Letter of Instruction and make any amendments before formally approving them. Formal approval by the ministry serves the purpose of providing reference marks for the review of the agency's operations. This approach would appear to only make transparent what is current practice in many cases. It would also clarify the roles of the ministries and the agencies in specifying outputs and recognise the key roles that agencies will inevitably play in such an exercise. Nonetheless, a stronger role is required for ministries in this area and this is discussed in a subsequent section of this chapter.

## **Reporting Results**

The primary vehicle for agencies to report the results of their operations is the agency's annual report. Since 1993, all agencies have been required to issue an annual report that consists not only of a financial report but also of a performance report.

According to Ministry of Finance guidelines, the agency shall keep accounts and comment on its work performance in relation to the objectives, and in accordance with the reporting-back requirements, specified ... in the [Letters of Instruction]. The agency "shall comment on the performance reported and give an account of essential external and internal circumstances, such as factors in the surrounding world, organisational changes, etc., that have affected this performance. The information in the performance accounts shall cover the past three financial years and be comparable over time. In the event that it is not feasible to compile comparable three-year performance information, the agency shall comment on and justify this fact. The agency shall, in particular, comment on the performance reported in relation to the objectives of its work that the Government has specified in the [Letter of Instruction] or some other decision. The particulars in the performance accounts shall be based on documented data and measuring methods".

A review of a selection of agency annual reports reveals a great diversity in their format and contents. It is obvious that agencies place significant resources into the preparation of these reports. They vary in size from small reports produced on word processors to large and glossy reports adorned with pictures and elaborate graphs. A number of agencies translate their annual reports into English. The agencies appear to take great pride in their annual reports and use them as a means of introducing their agencies to an external audience.

The structure of the annual reports generally follows a common line. The agency's director-general highlights the operations of the agency during the year in very general terms and raises the key issues faced by the agency during the year. This is then followed by a detailed review of the agency's operations which is generally segmented by work areas (outputs). Although there is a specific statements of outputs in the annual reports, the performance information is for the most part intertwined with this narrative discussion of the agencies activities. Following the narrative discussion, the agency's statements



are then presented. They consist of an accrual-basis income statement, balance sheet, a statement of appropriations, a statement of cash-flow analysis and a statement of outputs -- together with the accompanying explanatory notes.

There are two critical observations that can be made concerning the annual reports. The fundamental problem with the role of the annual report in the accountability chain is of course that the expected results of the agencies have not been effectively specified by the ministries. This means that there are often no, or only vague, reference marks for the accountability of agencies to be measured against. This is not really a problem of the annual reports themselves but rather of the Letters of Instruction as discussed above. Another problem, and related to there often being no clear reference marks in the Letters of Instruction, is the fact that the annual reports tend to be very voluminous. There are extreme examples of agencies presenting a 100+ page narrative review of their operations in the annual reports. In such cases, it is difficult to identify what is truly relevant and pertinent information. However, the information "overload" problem appears to be improving with time as more experience is gained by agencies in producing them. Most agree that the quality of the annual reports has shown marked improvement in each successive year.

An important factor in improving the quality of the annual reports is the fact that they are audited by the National Audit Office -- both the financial report and the performance report. The auditors have issued qualified opinions on annual reports due to the poor performance information contained in them, albeit rarely. The auditors have acknowledged that the agencies are on a learning curve in preparing the performance information and as a result have been more tolerant than otherwise in auditing them. This, however, is a transitory stage and the threat of a qualified opinion should in future exert a powerful discipline on agencies in producing the reports.

On the whole, the annual reports are an effective vehicle for presenting information on the operations of the agencies. If reference marks for the expected results of the agencies are improved in the Letters of Instruction, then the annual reports are well suited to serve their function in the accountability chain.

The limited impact that the annual reports appear to have in the budget formulation phase was criticised by some agency officials. This issue was discussed in an earlier chapter.

### Financial Management Ratings for Agencies

Agencies are required to report monthly on their use of appropriations which is monitored by the respective ministries. Information on the use of appropriations for the current year is reported to parliament in the Spring Fiscal Policy Bill and in the Budget Bill. The agencies prepare half-yearly financial statements on accrual-basis which are audited.

In addition, the National Audit Office has recently implemented a system of financial management ratings for agencies. Their objective is to assess the financial management standards in agencies on a systematic basis. Each agency is assigned a rating of A (fully satisfactory), B (satisfactory) or C (not satisfactory) for each of two elements of their financial management practices. The first one can be described as a "consolidated" rating. One of the key bases for this rating is whether the agency exceeded its appropriations. The second rating can be described as an "internal" rating. This rating is based on an evaluation of the internal management controls in place at each agency to ensure the accuracy and completeness of all financial reporting.

The following table shows the distribution of financial management ratings for the past two years:

	<b>Fiscal year 1994/95</b>	<b>Fiscal year 1995/96</b>
<b>Fully satisfactory</b>	<b>44%</b>	<b>67%</b>
AA	20%	45%
AB	24%	22%
<b>Satisfactory</b>	<b>47%</b>	<b>25%</b>
AC	13%	5%
BA	5%	8%
BB	19%	10%
BC	11%	3%
<b>Unsatisfactory</b>	<b>9%</b>	<b>8%</b>
CA	1%	3%
CB	2%	3%
CC	6%	2%

The ratings for each agency are made public. This high visibility makes the ratings a powerful vehicle for exerting discipline on the financial management practices of agencies. It was clear that the agencies viewed their ratings very seriously. From the perspective of the National Audit Office, the ratings system also assists in systematically identifying areas where agencies may require more guidance and information in order to perform their financial management operations effectively.

### The Management Capacity of Ministries

The capacity of ministries vis-à-vis their agencies has been commented on several times in this report. This lack of management capacity has been a source of problems in the new accountability for results regime as the ministries have not been in a position to effectively specify the results expected of agencies, or to effectively monitor the performance of agencies, as the new accountability for regime calls for. This is clearly an area where reforms are needed.

This can be achieved by either modifying the current accountability for results regime, or by fundamentally changing the respective roles of the ministries and agencies. It was suggested previously in this chapter that the former approach would be more desirable. Agencies should submit draft Letters of Instruction to their ministries outlining the outputs they intend to produce, based on their previous dialogue with the ministry. The ministry would then review these outputs and amend them before formally approving them. The approved document would then serve as the reference mark for the agencies in the accountability chain. This approach builds on the current nature of the relationship between ministries and agencies, while clarifying and making more transparent the roles of each. The informal and co-operative relationship that exists between ministries and agencies is a great asset to public management in Sweden and should not be readily altered in any fundamental aspects.

Nonetheless, the role of the ministries needs to be strengthened in this area. This has been recognised in a recent directive from the Prime Minister's Office requiring ministries to meet with directors-general at least once a year to discuss management issues. The organisational structure of the ministries would appear to involve a bias against the management aspect of their work. The ministries generally have three "chief officers" working with the minister. The *under-secretary of state* is the highest ranking official in the ministry and is responsible for the overall operations of the ministry. This is a political position and he serves at the pleasure of the minister; the other two "chief officers" are career employees of the ministry. The *permanent under-secretary* is responsible for scrutinising all ministerial decisions to ensure their legal conformity. The *under-secretary for legal affairs* is primarily concerned with the development of the ministry's legislative agenda. There is no senior position devoted to management issues. All the top functions are primarily political or legal in nature.

An official commission in Sweden has previously recommended that this anomaly be remedied by the establishment of the position of *under-secretary for management*. Concurrently, the positions of *permanent under-secretary* and *under-secretary for legal affairs* would be amalgamated. The creation of the position of under-secretary for management would serve to ensure that agencies submit their draft Letters of Instruction and that they be reviewed and amended as necessary by the ministry before being approved; and that agencies report on their performance in an effective and efficient manner and that this information be analysed appropriately. For example, more policy-relevant outcome information could be derived from the disparate output information supplied by agencies. This could then be used to improve the performance information presented to parliament in the budget documentation. The creation of this position would also serve to ensure communication between ministries and agencies on management issues, rather than this dialogue being limited to questions of policy and legal affairs as would appear to be the case at present. The recommendation to establish this position has not been implemented. In fact, it has met with stiff resistance from the present chief officers of ministries, presumably because they view their powers as being diluted by this new position. There would, however, appear to be clear and compelling reasons to institute this recommendation. Management issues need a stronger voice in the ministries than at present and the position of under-secretary for management would provide that voice at the highest levels of the ministries.

## **Conclusion**

Sweden has comprehensively removed input controls but the development of an effective accountability regime based on results has been lagging. It should be noted that these problems are by no means unique to Sweden; specifying and monitoring results is a difficulty for all Member countries adopting results-based accountability approaches.

The challenge facing Sweden is to establish an effective accountability regime while respecting the traditional roles of the ministries and agencies. It was suggested that this could be achieved by having agencies submit draft Letters of Instruction to their ministries while at the same time upgrading the capacity of ministries in dealing with management issues.

## APPENDIX I -- OUTLINE OF FISCAL CONSOLIDATION PROGRAMMES

The government's fiscal consolidation programme became fully effective in 1998, but close to half of the savings were implemented by 1995 as revenue increases, in particular, were front-loaded (see item II below). The majority of measures were fully detailed at the outset, and the programme is now fully adopted by Parliament and implemented. The major steps in the policy process were as follows:

### I. The political process

Decisions taken prior to the autumn of 1994:	SKr	18.3 billion
November 1994 proposals:	SKr	56.4 billion
January 1995 proposals:	SKr	19.3 billion
Autumn 1994 - April 1995: Financing the EU contribution	SKr	20.0 billion
April 1995 proposals:	SKr	3.6 billion
Total:	SKr	117.7 billion
April 1996: Additional measures, permanent effect	SKr	7.8 billion
Total:	SKr	125.5 billion

### II. Profile of savings effects (per cent of GDP)

	<b>Annual impact</b>	<b>Cumulative</b>	<b>Per cent of total</b>
1995	3½ per cent	3½ per cent	44
1996	2 per cent	5½ per cent	69
1997	1½ per cent	7 per cent	86
1998	1 per cent	8 per cent	100

### III. Components (Skr billion)

	<i>Revenue reinforcements</i>	<i>Expenditure cuts</i>	<i>Total</i>
Total	59.3	66.2	

Source: OECD Economic Surveys of Sweden

**APPENDIX II - LIST OF EXPENDITURE AREAS**

1. The Swedish Political System
2. Economy and Fiscal Administration
3. Tax Administration and Collection
4. Justice
5. Foreign Policy Administration and International Co-operation
6. Defense
7. International Development Assistance
8. Immigration and Refugees
9. Health Care, Medical Care, Social Services
10. Sickness and Disability Benefits
11. Old-Age Benefits
12. Family and Children's Benefits
13. Unemployment Benefits
14. Labour Market
15. Study Support
16. Education and University Research
17. Culture, the Media, Religious Organisations, Leisure
18. Planning, Housing Supply, Construction
19. Regional Development
20. General Environment and Development
21. Energy
22. Communications
23. Agriculture, Forestry, Fisheries
24. Business Sector
25. General Grants to Municipalities
26. Interest on Debt
27. Contribution to European Union Budget

**APPENDIX III - ORGANISATION CHART OF THE BUDGET OFFICE**

