

# Performance Budgeting in Sweden

by

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*Management by performance began in Sweden's public administration in the late 1980s, both as a tool for the government's budget process and as a way for the government to control its agencies. This article discusses various aspects of the performance system in the Swedish context.*

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## 1. Description of the performance system

### 1.1. The administrative system in Sweden

The government is accountable to Parliament; the Budget Act, which Parliament passed in 1996, states that government activities shall be run efficiently and economically. The Act also states that the government shall report to Parliament on the relevant goals and the results attained in different fields of activity.

Government agencies are an important tool in the governing of the country. The government controls these agencies and their activities primarily to achieve political objectives. One of the forms of this control is performance management.

Assisting the government in its duties is a special, closely linked authority: the Government Offices, which *inter alia* prepare government business. In Sweden, the ministries prepare different kinds of government business within their own areas of responsibility, but the government collectively takes decisions in any matter (for example, regarding the Budget Bill). The ministries and individuals (normally the heads of ministries) also have decision-making power of their own, usually accorded through authorisation in a law or an ordinance or by the government.

Since the new government came to power in autumn 2006, the Swedish Government Offices consist of 12 government ministries, the Prime Minister's Office, and the Office for Administrative Affairs. Authorities abroad and commissions of enquiry included, approximately 4 600 members of staff are employed at the Government Offices.

The Swedish administrative model is characterised by a high degree of delegated responsibilities from the Government Offices to the agencies. The government defines the agencies' tasks, sets their goals, appropriates funds and stipulates feedback requirements. The Swedish administration comprises some 300 agencies linked to different ministries. Government agencies employ a total of about 200 000 staff.

One task that is solely the responsibility of Parliament is to take decisions about the central government revenue and expenditure. Parliament does this when the government has put forward its proposals as to how the central government should use its money the following year in the Budget Bill, which is presented in the autumn. When Parliament has decided on the budget, the government is responsible for the budget and for implementing Parliament's decisions.

The municipalities, the county councils and the central government together constitute the public sector, which deals with such areas as health care, preschools, education and the police. The different parts of the public sector are responsible for different areas of society. The budget states the amount of resources (appropriations) allocated to the areas for which the central government is responsible, and the revenue sources.

## 1.2. The performance system in Sweden

Management by performance began in Sweden's public administration in the late 1980s. In its supplementary budget proposal for the 1988/89 budget year, the government stated that attempts to radically change in a co-ordinated fashion how its activities are managed date from the 1960s. It emphasised that prerequisites must be created in order to be able to reallocate resources continuously from existing activities no longer deemed important to other activities of higher priority, both in the course of the budget process and in other contexts. Efficiency and productivity in the public sector would also need to improve in order to produce more – or more appropriate – services from the same resource input.

In the same budget proposal, the government also argued that management through a financial framework and extended powers and responsibility for the agencies must be linked to a demand for better follow-up. Much more than previously, the government should state what results are expected. The ways in which the focus and content of different activities are controlled must therefore be developed. These should be adapted to the prerequisites applying to each individual field (tasks, resources, legislation, etc.). This development must be more of a natural part of day-to-day work in the line ministries, in the agencies, and in the interaction between the line ministries and agencies.

The predominant form of control in the administration, alongside management by rule (laws and ordinances) and informal control, is economic control. Although the concept itself is not defined in the Budget Act, economic control consists of two sub-concepts: performance management and financial control:

- Performance management refers to a control system that involves setting goals for organisations and activities, collecting performance information systematically, and analysing and assessing the results against stipulated goals.
- Financial control is used to set the economic frameworks for organisations' resource consumption. Among other things these include appropriations, conditions for chargeable activities, investment frameworks, and borrowing frameworks.
- When the government's activities and operations are followed up and evaluated, results are assessed in terms of both goal attainment and resource consumption.

Economic control plays an important part in the government's budget process, which is based on a number of political goals and the resources that are available. Performance management and financial control must contribute to providing Parliament, the government and the public administration with a relevant basis for taking decisions.

In this context, it should also be noted that the Budget Act – the law that regulates Parliament's and the government's responsibilities as regards financial power – states that the government shall account for the relevant goals and the results attained in different fields.

Based on the Budget Act, the government has established a comprehensive set of rules for economic administration (ordinances) that the agencies must observe. These rules govern both performance management and financial control.

In addition, the budget department of the Ministry of Finance draws up instructions, in the form of circulars, for internal work with performance management in the line ministries. The instructions cover: the content of the annual steering document for the agencies (the letter of appropriation); the objectives and results of dialogue between the

agency's management and the management of the responsible ministry; and the government's reporting of results to Parliament.

### ***A common activities structure is being introduced***

As of the 2001 Budget Bill, a uniform structure (policy areas) was introduced for government activities. A division of government activities must in principle comprise all activities controlled by the government. Such a division must also enable the government and Parliament to relate results clearly to the politically stipulated goals. A uniform activities structure will help elucidate how different measures work towards shared goals and how they interact in order to best contribute to attaining those goals. It will also be easier to make comparisons between different areas, which in turn will also make it easier to prioritise between different activities.

According to the Budget Bill, the basis of all performance management is that it must be adapted to specific activities. This means choosing and combining those means of control that overall are best suited to the management of a specific agency and its particular activities. (It should also be noted that, with performance management, the agencies are given great freedom of choice in deciding how to organise and control their own activities in pursuit of their tasks and goals.) The goals that the government formulates for individual agencies' activities (in practice, the responsible line ministry in co-operation with the agency concerned) will thus reflect the goals at the levels of policy area and activity area. The agencies' reports in turn form a basis for the government's assessment of goal attainment and the need to take measures.

The budget is currently divided into 48 policy areas (labour market, transport, migration, equal opportunities, etc.). The policy areas comprise approximately 90% of government spending.

## **2. Measuring and assessing performance**

The goals for the policy areas are formulated within the framework of the government's budget process. They are proposed by the government (the responsible line ministry) and decided by Parliament. These goals have proved stable over time.

Most of the policy areas are subdivided into activity areas. At this level too goals are normally set, determined by the government. The transport policy area, for example, is subdivided into roads, railways, shipping, aviation, interregional public transport, and research and analysis. The division into activity areas has also proved to be relatively stable over time, as have the associated goals.

Each agency's activities are also subdivided into one or more branches. Each branch is unique in that it can only belong to one activity area (and thus one policy area). On the other hand, an agency can be active in several policy areas. One extreme example is the Social Insurance Administration, whose activities are divided into six policy areas, ten activity areas and thirty branches. Each policy area has a case production branch, linked to a unique activity area. In its letter of appropriation to the agency every year, the government (the responsible line ministry) stipulates the goals and feedback requirements for each branch (of activity).

Formally, goals are established at the political level. In practice, however, performance management is in the main an issue for officers both in Parliament and the Government Offices and in the agencies.

The majority of the goals for the policy areas can be regarded as effectiveness goals, while the goals at the branch of activity level are in principle exclusively performance goals. As regards, for example, the transport policy area, the goal is to secure a transport supply for citizens and trade and industry throughout the country that is socio-economically efficient and sustainable in the long term. This objective is divided into three sub-goals that refer to the transport systems' accessibility, quality, security and environment, and contributions to regional development and equality. These sub-goals in turn form the basis for the more detailed goals that the relevant agencies are required to attain. One of the goals of the National Road Administration (which operates in the activity area "roads") for 2007 was to implement cost-effective road safety measures in the state-owned road network that would lead to a reduction in the number of road accident fatalities of at least 20% compared to 2006. The National Road Administration stated in its annual report the estimated lower number of fatalities and seriously injured road users resulting from these measures.

On the basis of (*inter alia*) the National Road Administration's feedback in its annual report and special reports, and reports from the supreme audit institution and from the evaluation agency in the area in question, the government in its Budget Bill reports its assessment of the extent to which the sub-goals in transport policy have been attained. The use of evaluation information, however, is generally limited in the Budget Bill.

### 3. Integrating performance information in the budget process

Work on the Budget Bill begins in the Government Offices during the spring (second quarter). The Budget Bill comprises both proposed appropriations for various purposes (*e.g.* agencies or transfer payments) for the coming budget year, and a retrospective report of performance by policy area in relation to the goals set by Parliament. Experience has shown that the linkage between the performance information provided for each policy area and the proposed appropriations for different purposes is weak.

The final contents of the Budget Bill put before Parliament in early autumn (fourth quarter) are a result of the outcome of negotiations between the line ministries and the Ministry of Finance's budget department. In connection with this, a certain amount of discussion takes place between the line ministries and the agencies concerned. The negotiations are primarily conducted at the senior official level, but it is also common for different questions to be elevated to the political level (negotiations between the Minister for Finance and the responsible line minister). Ultimately, however, the government has the final word on the contents of the Budget Bill.

Negotiations primarily concern the focus of future policy and thus how government spending is to be spread over different appropriations. Only to a very limited extent do the discussions between the line ministries and the Ministry of Finance's budget department concern previous performance or concrete ambitions for the future in terms of performance.

Parliament appropriates funds for various purposes, for example to agencies and for transfer payments. It also establishes goals for different policy areas, which constitute an organisational division of the budget.

The government in turn appropriates funds to its agencies on the basis of what Parliament decides with regard to the Budget Bill. The government does this in a special steering document – the letter of appropriation. A letter of appropriation is normally directed to an agency and clarifies the operational and financial prerequisites for that

agency for the coming budget year. It contains the goals that the agency is to attain and details the requirements stipulated for the agency as regards feedback of performance information. The letters of appropriation are decided by the government but it is the task of the relevant line ministry to develop a proposal that will later become the subject of the customary negotiations with the Ministry of Finance's budget department. In drawing up the content of the letters of appropriation, some discussion normally takes place between the agencies and line ministries concerned.

In their annual reports, the agencies present a statement of operations that describes what the agency accomplished during the year, mainly in terms of performance (*inter alia* toward goals set by the government) but also in terms of operational costs. Based on that and other information, an objectives-and-results dialogue takes place once a year between the agency's management and the responsible ministry (normally represented by the State Secretary).

This dialogue, a regularly recurring element in the annual budget process, creates the opportunity for the responsible line minister to demand a certain level of accountability on the part of an agency's management. In practice, however, accountability cannot be demanded solely on the basis of the performance stated in the annual report. This is one of the reasons why a system has not been introduced in Sweden whereby the remuneration paid to the agency's management depends on the performance reported.

The agencies' annual reports, comprising both traditional financial accounting and a statement of operations, are scrutinised in an external audit made by the supreme audit institution, an agency subordinate to Parliament. The annual reports are submitted to the government, but as a rule they are also given to Parliament's expert committees. The audit reports are primarily submitted to the agencies, but are also given to the responsible line ministries.

The performance information is normally not used as a basis for negotiations or decisions on future resources. This is true both in the relationship between the line ministries and the Ministry of Finance's budget department, and in the relationship between the line ministries and the subordinate agencies. The reason is twofold: the goals are diffuse and inexact, and performance as reported by the agencies only reflects certain measurable dimensions of an agency's activities. This makes it difficult for the line ministries to determine the focus and scale of the agency's activities solely on the basis of the performance information given. Nor is it possible – or desirable – to require accountability on the part of an agency's management solely on the basis of the performance information that the agencies themselves compile.

#### **4. Reporting on performance**

Performance management is strongly linked to the budget process. The government (the line ministries) uses the performance information partly to follow up the agencies' activities (within the framework of the annual goals and the performance dialogue that is part of the annual budget process), and partly to report performance to Parliament.

Every year, in the Budget Bill, the government submits a statement of operations to Parliament. The government's statement is on both a policy area level and an activity area level. This information primarily concerns performance, and only in exceptional cases does it involve effectiveness. Resource consumption in the policy or activity areas is not normally reported.

## 5. Key challenges

Performance management was introduced both as a tool for the government's budget process, and as a way for the government to control its agencies. Both these aspects are considered when examining how the different actors perceive performance management, and the answers are thus not always clear-cut. How has performance management functioned so far?

### 5.1. What is Parliament's view?

On several occasions, Parliament has called attention to the fact that operational goals should be formulated in such a way as to enable them to be followed up. Performance information should be relevant to the goals set. Performance and development should be reported in quantitative terms to a greater extent than hitherto, using indicators or key ratios. The government's reports to Parliament must also be of such quality that goal attainment can be assessed (by Parliament).

Parliament has also stipulated that the government's reports must focus more on performance and less on activities such as measures taken or ongoing enquiries. Parliament is more interested in a report on the results of the government's measures than a report on what measures (actions) the government has taken. The reports must also focus to a greater extent on activities and less on agencies' achievements, not least with regard to action taken by the government that affects all sectors (Parliament seeks performance information on government activities rather than on individual agencies). The linkages between results achieved and proposed appropriations should also be improved, and here the government must clearly state the reasons for its assessments and conclusions.

These reflections are thus based on the view of performance management as a way of conducting the budget process.

### 5.2. What is the agencies' view?

The agencies' experience of performance management is both positive and negative. The performance information compiled is used to a fairly large extent within the agencies, and the dialogue between the agencies and the line ministries appears to be developing in gradual stages. On the other hand, the agencies say that they find it difficult to measure the results of their activities. They feel that the feedback requirements have greatly increased in recent years, and at the same time it is not clear to them how the performance information is used by the line ministries. In their opinion, the ministries also have shortcomings in the use of performance information with respect to continuity and competence.

Another observation is that the abundance of goals, feedback requirements and tasks in the agencies' letters of appropriation may cause the government's prioritising to appear unclear to the agencies. Then there is the additional amount of work entailed by the government's increasingly far-reaching feedback requirements.

In all essentials, these observations are based on the view of performance management as a model for the government's control of its agencies.

### 5.3. Future challenges

There are obvious difficulties in formulating goals of political interest for government activities. It is also difficult to define relevant indicators that capture the degree of goal attainment. Nor is it a simple matter to relate resource consumption to goal attainment.

The lack of relevant data is manifest in certain areas, but this does not constitute a crucial obstacle to more appropriate use of performance management as a form of control.

One particular problem that has been identified in Sweden has to do with difficulties in managing activities horizontally in a vertical structure. Goals that are formulated with an accompanying demand to report results in a policy area structure (vertical) do not, in some areas, reflect the real activity linkages between different agencies. Consequently, neither the responsible politicians nor the agencies' management understands how stipulated goals and the demand to report performance information are in agreement with how activities are carried out in practice.

A further dimension is the difficulty of co-ordinating the performance management effort in the Government Offices. It is at present the responsibility of each ministry's political executive, the directors of the divisions and departments, and the responsible administrators in the agencies to manage the ministry (by performance).

## **6. Solutions, impact and lessons learned**

One fundamental question, in the light of practical experience, is whether it is realistic to expect that performance information can be used to enforce accountability and allocate resources in the future. Sweden's experience so far clearly shows that it is not possible for the government to demand accountability on the part of the agencies on the basis of performance information or to reallocate resources on that basis. On the other hand, performance information may be put to some use in the agencies (to support their internal control), which could well contribute to greater efficiency. Another observation is that performance management has in practice a weak link to financial control. This means, among other things, that the government's efforts to ensure that funding achieves the goals of budget policy are separated from its efforts to manage government activities by means of performance. The importance of performance information would thus appear to be limited from the point of view of budgeting. On the other hand, the availability of relevant performance information is important from the point of view of control. A reasonable ambition for the future, as regards performance management, is to at least ensure that a substantial follow-up is carried out in the budget process, both in the relationship between Parliament and the government and between the government and the agencies.

Another question is whether it would be possible to base the reporting of results to Parliament on the performance information that the agencies provide. A related question is whether it would be possible to evaluate the agencies' activities on the basis of the performance information that they compile themselves.

There are no obvious answers to these questions. What can be said is that, in its present form, performance management in Sweden's public administration meets with a number of problems. One difficulty might be that its application and associated requirements have been pushed too far. It seems reasonable that goal and feedback requirements take the varied nature of the activities into consideration to a greater extent. There is also reason to consider in more detail what performance information should be reported on an annual basis or less frequently.

Another difficulty might be that it is accorded too much importance, which seems clear from the lack of political interest in performance management and the performance information that is compiled.

It should be possible for the government to use the agencies' performance information in its reporting to Parliament, at least to a certain degree. But on the other hand, Parliament cannot normally use the same performance information for purposes of evaluation. This is because the performance information that the agencies normally report refers to performance and costs, while evaluations must be based primarily on information about effects and costs. Nor is it possible for the government to evaluate the agencies' activities solely on the basis of performance information that the agencies themselves provide. Such evaluations should be made by an actor who is independent of the agency in question.

It may also possibly be true that the government's need for performance information varies, as on the one hand it wishes to manage its agencies by performance in order to realise its policies, and on the other hand it wishes to cater for Parliament's needs for performance information to form an opinion on the government's budget proposals.

### **6.1. Where do we go from here?**

Performance management is used both in the relationship between the government and the agencies, and in the relationship between Parliament and the government. It involves a great many members of staff at different levels of the administration. Considerable resources are applied every year to performance management of the administration; at the same time, the results of these efforts can be questioned. In the opinion of the government, the focus of continuing work on developing performance management as a form of control must be based on experience gained up to the present time. For this reason, the advantages and shortcomings of performance management were the subject of an evaluation in 2006.

In order to improve the performance dialogue between the government and Parliament, a working group was set up consisting of representatives from the Ministry of Finance and the (parliamentary) Committee on Finance. The question under discussion is on the kind of performance information Parliament needs to have to be able to come to a decision on the government's budget proposals. In this context, there is good reason to consider what performance information should be submitted annually or at specified intervals. The efforts of the working group were stepped up in 2007. It is not possible at present to state which observations and proposals the working group will present to Parliament and the government. However, the members of the working group are agreed that the present arrangement must be changed in some way as it is not suited to its purpose.

Meanwhile the government has appointed an investigator – with a broad and unconditional mandate – to evaluate how performance management is used in the relationship between the government and its agencies.

The investigator's report was submitted in November 2007 (*Att styra staten – regeringens styrning av sin förvaltning*, SOU 2007:75\*). Initially the report gives a description of the present system for the government's way to manage and steer its agencies. The present system is based on an approach that was formulated almost half a century ago. Many of the problems of the 1960s are still described as problems today. So these problems seem to be more or less permanent, even though the steering system has been changed in fits and

\* A summary in English is available at the end of the report, at [www.regeringen.se/content/1/c6/09/15/18/9b69d35c.pdf](http://www.regeringen.se/content/1/c6/09/15/18/9b69d35c.pdf).

starts. Documents and requirements concerning analyses that have been of great importance for a number of years lose that importance over time.

This situation reflects the fact that the reforms implemented have often identified solutions by inverting the problems. Changes have mainly concentrated on documents and procedures. As a result, the steering system has acquired certain ritual features. For instance, the Government Offices put a lot of time into drafting the annual appropriation directions for each and every government agency. Government agencies, for their part, put a great deal of time and resources into meeting the government's reporting requirements – which are sometimes very extensive and detailed.

It is hard to say what importance all the objectives and all the information required from the agencies has actually had in practice for the steering of these agencies by the government. There is a great difference between the formal system of steering the agencies and their activities, on the one hand – which is based on administrative rather than political ideas about in what respects and how political decision makers should steer the agencies – and how they are actually steered in practice, on the other.

The concentration on the technical side of the steering process has made it natural to examine how various practical solutions function and as a result perhaps make new changes after a few more years. This way of addressing steering issues has been particularly apparent in a very large number of inquiries and evaluations analysing various limited parts of the steering of agencies by the government.

However, it eventually also becomes necessary to examine the ideas and thinking behind the steering system. The investigator has given a lot of attention to the practice of agency steering but has also examined whether different problems in the steering exercised by the government originate in the technical design of the steering system or whether they are attributable to incorrect assumptions behind the technical solutions and their implementation. The investigator has also discussed what can reasonably be achieved through reforms of various kinds in the steering system.

The investigator's report presents a fundamentally new view of how the government, as a collective, can govern or steer its agencies. It is based on what the investigator consider are realistic expectations of what can be achieved by changing the system for steering agencies and their activities. The basis for this view is that the prime task of government agencies is to put government policy into effect and that it is up to the government to transform political ambitions into specific mandates and tasks for government agencies. These mandates and tasks should be formulated so that each agency has the capability of successfully fulfilling its mandate and tasks by taking various measures, or has reasonable possibilities of doing so.

There are considerable differences both between the agencies themselves and between the activities they conduct. The system for steering agencies should therefore enable the government to govern them in a variety of ways. This discussion means that the common denominator of this steering should be as small as possible. The content of the annual steering process should be reduced.

The investigator's approach results in a number of proposals for improving the steering of agencies and their activities. An example of a more fundamental proposal is that the common activity structure will be abolished. These proposals will have consequences for the government itself and its ministries, on the one hand, and for its agencies, on the other. In the Government Offices in particular, these proposals, when

implemented, will create conditions for a shift from routine work to long-term and strategic work. Steering will focus on the activities rather than on the agencies themselves. For their part, the agencies will be given more responsibility for describing their activities.

Giving the government advice and support in governing activities and agencies will be a strategic and increasingly important task for the officials in the Government Offices. This will require some changes in the competence available there. Officials in the Government Offices will have to identify relevant knowledge, follow the development of knowledge in various areas and analyse activities and links so as to make them better able in their work to support the political leadership.

The report has been referred for consideration. During 2008, the government will inform Parliament of the direction of the forthcoming efforts in this area.

