

Summary

A Developed Budget Process –Increased Transparency and Structure, SOU 2013:73

As a result of the budget policy framework introduced in the mid-1990s, the budget process became characterised, in a considerably higher degree than previously, by a top-down perspective starting out from clearly defined fiscal rules and limits for different expenditure areas. Since then, the Government's work on preparing a draft budget has been guided by multi-annual ceilings for central government expenditure and a target for general government net lending. These fiscal rules have given the budget process a medium-term perspective. The Committee's assessment is that the top-down perspective in the budget process has increased the ability to maintain sound public finances.

At the same time, a system was introduced according to which the Riksdag (the Swedish Parliament) adopts the central government budget in two stages. In the first stage, the Riksdag takes a position on an estimate of central government revenue and expenditure frameworks for different expenditure areas, specifying the maximum total amount to which the appropriations in each expenditure area may add up. After that, the Riksdag takes decisions on the various appropriations within each expenditure area. The switch to this 'framework decision process' encouraged the Government and the opposition parties to take an integrated and coordinated approach in their budget policy. The distinctive feature of the resulting decision-making process is that comparable budget policy packages are set against each other, with each Riksdag party's package representing an overall approach to budget policy. This made it possible to eliminate at an early stage of the Riksdag's budget process the uncertainty that previously existed about the consequences of the process for government borrowing

requirements, for example. The framework decision process also makes it possible to avoid shifting majorities in decisions on individual budget matters, which risk weakening the central government budget. The framework decision process also enhances the likelihood of a minority government having the proposals in its budget bill approved by the Riksdag, which increases the Government's ability to govern the country effectively. This was one of the intended effects of the reform.

Some of the rules and principles in the budget policy framework were regulated in the Riksdag Act and the Central Government Budget Act (1996:1059), which entered into force in 1997. Other parts of the framework are clarified by statements in the legislative history and the constitutional practice that has developed over the last 15 years.

For the most part, the current budget process is the same as the one introduced in the mid-1990s. However, certain changes have taken place in the legal regulations, including the provision in the new Budget Act (2011:203) that makes it mandatory for the Government to propose an expenditure ceiling for the third year ahead and the provision concerning a target for general government net lending. The practice that has developed has also led to changes in the Riksdag Act in that the role of the expenditure frameworks for the expenditure areas during the budget year has been clarified. This has been expressed in the regulations by stipulating that a decision on appropriations for the current budget year that affects an expenditure framework is not allowed before a decision on approval of new expenditure limits has been taken. In addition, the Spring Fiscal Policy Bill has been made mandatory and given a clear focus on medium-term and long-term issues in economic and budget policy.

The Committee concurs with the conclusions of earlier evaluations that the reformed budget process works better than previously in important respects. However, large parts of the budget process remain unregulated and rely on a system of practices and agreements that has developed and become established over the past fifteen years, generally with broad political support.

A system that is so largely based on practice can give rise to a lack of clarity about what applies in different situations. It also means that the actual budget process is not reflected in the legislation governing the budget process, which can make it

difficult for a citizen or actor in the budget process who wants to understand how the process works to follow and comprehend it. In view of this, the Committee finds there is now cause to consider formal regulations for certain parts of the budget policy framework that are based on well-functioning, established practice and have won broad parliamentary support. For similar reasons, there is cause to consider regulations to clarify some existing rules regarding the Riksdag budget process. Achieving greater clarity is therefore an important starting point for the Committee's deliberations.

However, in view of the fact that further regulation risks reducing the flexibility of the system, every change must be examined individually. The Committee emphasises that the need for additional regulation in certain areas does not imply a reduced need for parliamentary consensus on the importance of having a budget process that supports strong and stable public finances. The budget policy framework must rest on both clear regulations and continuing parliamentary consensus in these matters.

Alongside a codification of well-functioning and established practice, the Committee also sees a need in some areas to bring about more consistent management of both the revenue and expenditure sides of the budget and of the processing of certain matters by the parliamentary committees. In some of these respects too, the Committee has considered new legislative provisions.

Proceeding from these points, the Committee submits the proposals and assessments as below. Reservations from members of the Committee representing the Social Democratic Party, the Green Party and the Left party are also attached to the report.

Budget policy targets

Riksdag decisions on budget policy targets

The budget policy targets have existed for approximately 15 years. The expenditure ceiling was introduced in 1997 and the target for general government net lending was introduced, in its present form, in 2000. These targets have served Sweden well, and even if opinions may differ about the levels there is broad political support for the targets and the important role they play in ensuring

sustainable public finances in the long term. The budget policy targets are currently regulated by the Budget Act, which mainly focuses on the Government's role. However, there is reason to consider explicit regulation of the role of the budget policy targets in the parliamentary budget process as well. The Committee proposes the introduction of a provision in the Riksdag Act stating that, in the first stage of the framework decision process, the Riksdag is to take decisions on the basis of the budgetary policy targets the Riksdag has decided to use. This would clarify the decision-making procedure that the Riksdag has followed for a considerable time. Such clarification would also clarify the link between the annual budget decisions and the medium-term perspective in the budget process. As the Committee proposes that the framework decision process should be applied unless the Riksdag has passed an act ordering otherwise, this provision would also be subject to that condition.

The provision is not intended to specify exactly which multi-year budget policy targets should be used in preparing and adopting the central government budget. The proposed provision makes it a regulation that the Riksdag, in accordance with existing practice, should decide on the levels of the budget policy targets, or adjust previously decided levels, in the first stage of the framework decision process. Decisions on the levels of budget policy targets referring to the current budget year, however, should be taken in connection with a decision on a supplementary budget. A regulation that decisions on budget policy targets are to be taken in connection with decisions on the central government budget can ensure a coherent decision encompassing budget policy targets, expenditure limits for expenditure areas and estimated central government revenue.

Reporting of budget impact and follow-up of general government net lending target

Under the Budget Act, the Government must report at least twice a year on the achievement of the general government net lending target (the surplus target), if the Riksdag has adopted such a target. Such a follow-up should contain a check on whether the target will be achieved in a medium-term forward-looking perspective, taking account of both the approved and the proposed and announced

budget policy. In this follow-up, it is essential that the impact of the budget policy measures under consideration is reported and that a clear explanation of the reasons for any deviations from the target is given.

The Government has long reported the medium-term impact on public finances and expenditure subject to the expenditure ceiling of approved, proposed or announced budget policy measures in the Budget Bill. This information is also important for assessing the stabilisation policy direction of fiscal policy and provides information on how the total fiscal room or need for savings has been used for politically prioritised measures or budget consolidation. To safeguard and cement existing practice, the Committee therefore proposes the introduction of a provision in the Budget Act directing that when the Government reports on target achievement to the Riksdag it must take account of the impact of approved and proposed budget policy measures.

The Budget Act contains explicit provisions on consequences if an approved expenditure ceiling risks being exceeded. However, there are no provisions on consequences if the target for general government net lending is not met. As an overarching restriction for fiscal policy, this target differs from the expenditure ceiling in that it is mainly forward-looking. Other consequences are therefore required if the target is not expected to be met. With regard to the net lending target, account must be taken of the economic situation, the risk scenario and analytical uncertainties when deciding how and when any deviations will be addressed. The Government has developed principles for managing deviations from this target and has also applied these principles in some cases. In view of this, the Committee proposes the introduction of a provision in the Budget Act directing that in the event of an expected deviation from the target the Government must also describe what will be done to get back on track. Such an assessment is generally associated with considerable uncertainty. The analysis should therefore clearly indicate that a deviation exists for the Government to be required to describe how to get back on track.

Several government agencies have instructions to analyse how the budget policy targets are observed, from various perspectives. The Committee considers that the practice followed by the agencies in their independent analysis and monitoring of the budget policy targets currently functions well. To safeguard this

practice, the Committee proposes the introduction of a provision in the Budget Act directing that the Government must ensure that the implementation of the budget policy targets is evaluated.

Framework decision process

Regulation of the framework decision process

The general provision in the Riksdag Act regulating the decision on the central government budget for the coming year states that the framework decision process can be used to decide on the central government budget. The fact that the framework decision process actually must be applied is only stated in a supplementary provision in the Riksdag Act regulating which expenditure areas central government expenditures are to be assigned to. The Riksdag has now applied this special system for taking decisions on the central government budget since autumn 1996. As the Committee understands it, using the framework decision process has been a positive experience in practice and the budgetary results of using this process have been favourable. The framework decision process has also won broad political support. However, the current regulations governing the framework decision process may be considered difficult for citizens and actors in the budget process to understand. The Committee therefore proposes that the framework decision process be regulated more clearly by the introduction in the provision in the Riksdag Act of a presumption that the framework decision process shall be used unless the Riksdag has adopted legislation ordering otherwise.

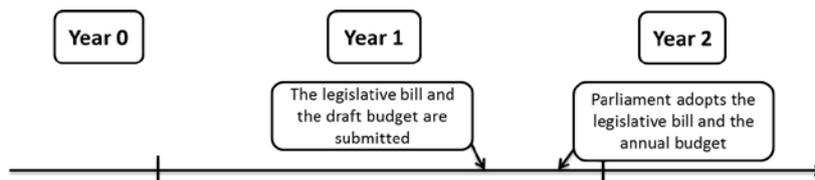
The link between the legislation and the central government budget

Central government revenue cannot be estimated independently of the tax legislation and legislation affecting other revenue in the central government budget. Decisions on new or amended legislation also often influence the appropriations for various purposes on the expenditure side of the budget.

In recent years, proposals on taxes and legislation that have an impact on expenditure have increasingly been presented in the Budget Bill. The practice has been to decide on these proposals under the framework decision process, which has reduced the risk

of inconsistency between legislative decisions and budget decisions. The Committee considers that legislative proposals that have an obvious effect on the budget and are presented in connection with the Budget Bill should be decided on under the framework decision process (cf. Figure 1 below).

Figure 1 Legislative proposals presented in connection with the Budget Bill (BB), Committee's assessment

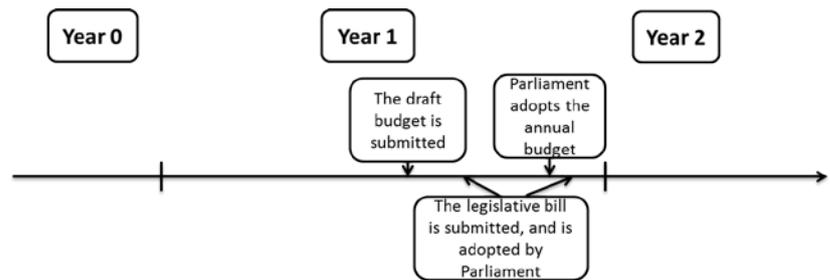


However, the fact that a proposal is presented in the Budget Bill does not necessarily mean that it will obviously affect the central government budget. Legislative proposals that by rights have no obvious link to the central government budget should therefore not be included in decisions under the framework decision process. Exactly where the line should be drawn between when a legislative proposal should or should not be subject to the framework decision process should be determined by the Riksdag, based among other factors on an assessment of the measure's budget impact and the uncertainty of this assessment. It should be possible to develop the Riksdag's practice so as to further clarify the dividing lines between cases in which legislation submitted in connection with the Budget Bill should come under the framework decision process and cases in which it should not.

What conditions should be required for proposals affecting the budget to be announced in the Budget Bill?

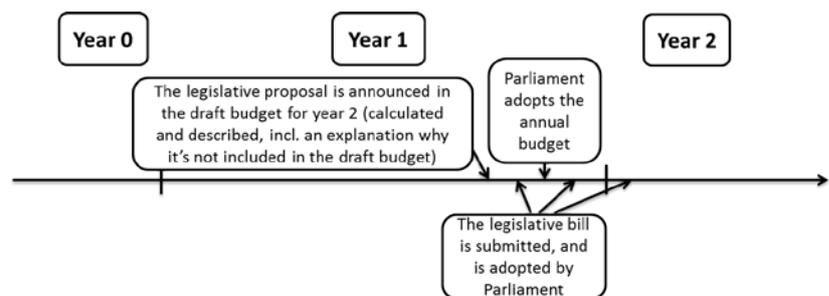
The Riksdag Act currently states that the Government may only submit a bill on central government revenue or expenditure for the following year after submitting the Budget Bill if it considers that exceptional economic policy grounds exist for doing so (cf. Figure 2 below).

Figure 2 Legislative proposal submitted after Budget Bill (BB) in the case of exceptional economic policy grounds, current system



For a number of years, however, the practice applied has allowed government bills containing legislation that affects the budget for the coming year to be submitted after the Budget Bill even in the absence of exceptional economic policy grounds. This practice has been based on the perception that the bills do not contain new proposals on central government revenue or expenditure, since the proposals have already been described and taken into account in the proposed central government budget in the Budget Bill. In the Committee's view, this practice should be applicable in future as well. However, this assumes that the proposal announced has been taken into account in the proposed central government budget and thoroughly described in the Budget Bill. This account must cover in particular the budgetary consequences in the medium-term perspective and, if the measure includes legislation obviously affecting the budget, the parts of the legislative proposal announced that will affect the budget (cf. Figure 3 below).

Figure 3 Legislative proposals announced in the Budget Bill (BB), Committee's assessment



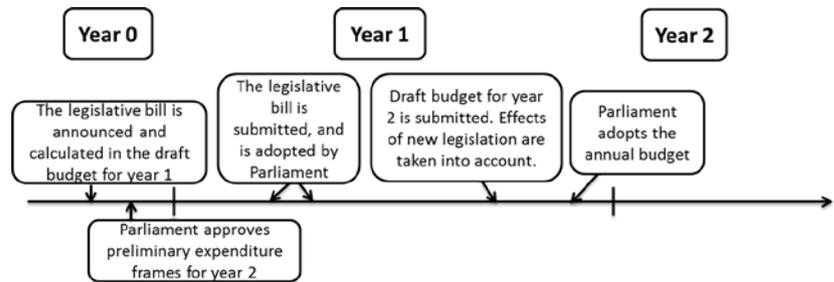
A procedure involving advance announcements in the Budget Bill of legislation with an obvious impact on the budget should be applied restrictively. The Government should report in the Budget Bill the reasons why the legislative proposal could not be presented in connection with the Budget Bill. Such reasons may include the limited time available for preparation, for example in connection with a change of government after an election, a judicial ruling, a decision by the European Commission in a notification process or changes in conditions for designing the proposal that have arisen late in the preparations. In these situations, the practice that the opposition doesn't enter reservations in favour of their own proposals, which is established in the parliamentary Committee on Taxation may be relevant, since such a procedure can help counter the risk of conflicting decisions.

Legislative proposals affecting the budget that are submitted before the Budget Bill

Sometimes the Government proposes and the Riksdag adopts legislative proposals with obvious consequences for the next year's budget as early as in the spring. This procedure can be used, for example, in the case of extensive and complex legislation or legislation that is considered to require time so that households, businesses or government agencies can prepare and adapt. There may also be other reasons for submitting legislation affecting the budget for the next coming year in the spring. This approach puts the Government in a good position to take account of the Riksdag's decision on the legislative proposal in the proposed central government budget. However, one disadvantage of introducing legislation with obvious budgetary effects in the spring is that this procedure can cause problems relative to other budget policy measures to which the Riksdag and Government attach political priority ahead of the coming year, particularly if the fiscal room available is revised by the time of the Budget Bill and the framework decision. To give stability to a procedure involving early prioritisation in the form of spring legislation for entry into effect the next year, the Committee considers that advance notice of such legislation should be given in the previous Budget Bill and the Riksdag should be given an opportunity to take account of the envisaged legislative proposal within the framework of a guideline

decision on preliminary revenue estimates and expenditure limits for the next two budget years (cf. Figure 4 below).

Figure 4 Legislative proposals submitted before the Budget Bill (BB), Committee's proposal and assessment



Against this backdrop, the Committee proposes a regulation in a supplementary provision in the Riksdag Act directing that the decision during the first stage of the framework decision process is to include a decision on preliminary revenue estimates and expenditure limits for the next two budget years. Deciding on the preliminary revenue estimates and expenditure limits during the first stage of the framework decision process will also ensure agreement between these and the levels decided on for the budget policy targets.

Other decisions during the first stage of the framework decision process

The Committee proposes that the provision in the Riksdag Act concerning the decisions to be included in the first stage of the framework decision process should also, in accordance with established practice, include other payments that affect the central government borrowing requirement, i.e. net lending by the Swedish National Debt Office, adjustment to cash bases and changes in appropriation balances. This would ensure that the central government borrowing requirement is clarified at an early stage of the Riksdag's budget process. In addition, and again in accordance with established practice, an estimate of expenditure in the old-age pension system should also be included in the first decision-making stage. This would mean that all expenditure under the central government expenditure ceiling would be calculated at

this stage. However, no regulations are proposed with reference to the latter example.

Other decisions during the second stage of the framework decision process

The Committee proposes the introduction of a provision directing that the decision in the second stage of the framework decision model should also include the decision of the Riksdag on authorisations concerning financial commitments, primarily government lending, authorisations to place orders and guarantees. These decisions have a direct impact on the central government borrowing requirement or a close link to appropriations in the central government budget. This is also a means of creating increased consistency in the way different parliamentary committees process authorisations concerning financial commitments. The regulation will replace the current Riksdag Act regulation on 'other expenditure', the meaning of which has been unclear.

Proposals introduced outside the ordinary budget process

Committee initiatives affecting the central government budget are mostly a matter of corrections and are decided unanimously by the committee. It also happens that a parliamentary committee takes an initiative in response to an economic or other crisis, in order to quickly solve a situation that has arisen. The Committee considers that proposals originating from the Riksdag that, if approved, would have an obvious impact on the central government budget should, in accordance with current practice, be decided within the framework of one of the decisions in the ordinary budget process. Such proposals should be prepared in accordance with the preparation requirements that the Riksdag Act Review Committee (2012/13:URF3) proposes should be introduced and that the Budget Process Committee endorses. If the intentions behind the budget process are to be upheld, it is also important that the Riksdag maintains its practice of not breaking up or wholly or partly setting aside an adopted budget by later separate decisions.

No regulations are proposed on the right of proposal and right of initiative in the Riksdag.

Treatment of agency regulations with budgetary consequences

The Instrument of Government allows part of the Riksdag's regulatory power to be delegated to the Government and then delegated on by the Government to a government agency. If an agency makes use of its authorisation to issue regulations, considerable cost impacts can arise in certain cases for central or local government. At present, agencies are not required to obtain the consent of the Government before taking decisions on such regulations. Situations can therefore arise in which regulations with considerable cost impacts are adopted without the Government having an opportunity to take the matter and the need for resources into account in the Budget Bill. Instead, the need for resources will need to be dealt with outside the general opportunity for prioritisation that the ordinary budget process in the Riksdag and the Government is intended to constitute.

To enable agency regulations that entail not insignificantly increased costs for central or local government to be brought into an integrated budget process, the Committee considers that an obligation should be introduced requiring agencies to obtain the Government's consent before adopting such regulations. An obligation for agencies to request the consent of the Government before adopting such regulations gives the Government an opportunity to examine the costs and take them into account in the coordinated budget process and to present a complete Budget Bill to the Riksdag. The Committee is of the opinion that the appropriate way to regulate such an obligation is an ordinance.

Changes in the central government budget

The system for revising the central government budget during the course of the budget year is currently largely unregulated.

To ensure a coordinated budget process for the current budget year, the Committee proposes the introduction in the Riksdag Act of a provision allowing the Government, as a general rule, to submit a bill proposing revisions of the central government budget

for the current budget year on two occasions at most, in connection with the Spring Fiscal Policy Bill and the Budget Bill. The proposed provision is in line with what was said in connection with the introduction of the current budget process and accurately reflects the practice applied during the last 15 years. As a rule, proposed revisions of the central government budget should aim to supplement the adopted budget based on changes that could not have been foreseen when the Budget Bill was submitted. To ensure that the integrated and coordinated perspective that is called for is maintained in the budget process while securing necessary flexibility, proposed revisions to the central government budget should only be allowed at times other than in connection with the Budget Bill and the Spring Fiscal Policy Bill if special reasons exist. Such reasons might be unexpected economic strains or other unforeseen events that require prompt action.

There is no set practice for dealing with proposals that only affect central government revenue in the current budget year. Sometimes, such proposals are submitted in one of the annual bills containing proposals on revisions of the central government budget, but they can also be submitted in separate bills outside the supplementary budgets. The Committee proposes that proposals that obviously affect central government revenue in the current budget year and that are decided on in connection with a bill on amendments to the central government budget should also entail recalculation of the revenue headings affected by the proposal.

The Committee considers that the regulation in the Riksdag Act of motions arising out of government bills should be clarified regarding what is meant by the condition that proposals must keep within the framework of the matter concerned in connection with proposals on supplementary budgets. It should be made clear, for example, that a counter proposal from the opposition may not concern raising or lowering revenues or appropriations beyond the limits proposed in the Government's bill. The proposal submitted by the Riksdag Act Review Committee appears to satisfy this need, and the Committee therefore refrains from submitting any proposal of its own on this point.

The practice in recent years has been for the Riksdag to set new or adjusted expenditure frameworks and appropriations for the current budget year by a single decision. However, other proposals in a government bill proposing revisions to the central government budget for the current budget year are usually dealt with as

separate items, which entails a risk of conflicting decisions, e.g. concerning the level of the appropriation relative to the level of an authorisation to place orders. The uncertainty created by this system could also lead to various types of strategic behaviour by the Government, which could reduce transparency and control on the part of the Riksdag. Moreover, as a general rule, revisions to the budget are intended to supplement the budget adopted by the Riksdag in the autumn. It should be possible for decisions to be taken on them by a simplified procedure. The Committee therefore proposes the introduction of a provision in the Riksdag Act directing that amendments to the central government budget are to be adopted by means of a single decision. This provision, like the regulation of the framework decision process, will be conditional on the Riksdag not having decided otherwise in an act of law. This means that proposals on recalculation of revenue, new or adjusted expenditure frameworks and appropriations, and authorisations concerning financial commitments will be dealt with as a single item. Proposals obviously affecting the budget for the current budget year and submitted in connection with a budget amendment bill should also be included in the decision, in accordance with practice. Where relevant, proposals arising out of budget policy targets adopted by the Riksdag should also be dealt with in the same item.

However, situations can arise that require a comprehensive re-examination of large parts of the central government budget, which would make for a very extensive proposal on amendments to the budget. Such a situation could arise, for example, as a result of a government that had just assumed office after an election not having time to elaborate proposals concerning large parts of its policies in the Budget Bill. In such situations, the Committee proposes that the Riksdag should be able to decide on amendments to the central government budget by the same procedure as applies to the budget for the following budget year, i.e. in two stages under the framework decision process.

Consequences for the work of the Riksdag and the Government

The Committee's assessment that legislative proposals obviously affecting the central government budget should generally be

submitted no later than in connection with the Budget Bill can be expected to lead to rather more proposals being put forward at this juncture than is now the case. This is likely to have some impact on when the processing of such legislative proposals takes place, both in the Government Offices and in other bodies such as the Council on Legislation.

Under current provisions in the Riksdag Act, the Committee on Finance is to process proposals on expenditure frameworks and estimated central government revenue. The Committee proposes that it be clarified that the Committee on Finance is to process all proposals included in the first stage of the framework decision process and in a decision revisions to the central government budget, unless the Riksdag has decided otherwise by means of an act of law. This proposal may entail some transfer of matters between the parliamentary committees, but the changes should be limited.

Entry into force

The Committee proposes that the amendments to the Riksdag Act and the Budget Act proposed in its report should enter into force on 1 September 2014 and consequently be applied in connection with the processing of the budget for 2015.