

## ***The Institutional Foundations for Performance Budgeting:***

# **THE NORDIC CASE**

***Presentation at the International Conference on Performance Budgeting in Mexico City, 9 – 10 June 2008***

### **1 Introduction**

This paper will describe the practices and challenges encountered in performance budgeting in Sweden. It does not give a complete picture of the Swedish budget arrangements. Their structure and content have however been extensively described in other publications.

The Nordic countries share a common heritage of popular participation in both the governance of the country and the administration of justice, and have been leading in the work for a more performing public sector. Even though there are differences between a slightly more centralised Western variant (Denmark, Iceland, Norway) and a slightly more devolved Eastern variant (Estonia<sup>1</sup>, Finland, Sweden), the similarities set these countries apart from the rest of Europe. This paper is however based on the Swedish experiences.

The focus of Swedish public governance is not on performance budgeting per se, but on *performance management* based on setting goals, assigning resources, appointing managers and holding them accountable for results. This paradigm has more in common with modern economic theories about service management than with Max Weber's and Fredrik W. Taylor's theories about the ideal bureaucracy and the scientific management. Dialogue, consent and empowerment have replaced the old command-and-control mode as the normal way of governing the public administration. Performance budgeting is an integral element of this paradigm, and its format and design is determined by the broader public management paradigm.

The paper is as far as possible based on public sources and on the public debate in Sweden about performance management in the public sector. The views and opinions presented in the paper are however the author's and not necessarily the government's.

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<sup>1</sup> Estonia was part of Sweden till 1709 and is now re-creating a public administration aligned on the Nordic model.

## 2 The Swedish context

### 2.1 The constitutional arrangements

There are four elements of the Swedish context that are important for understanding public governance and management arrangements in Sweden. All of these have existed for a very long time.

- ❑ A constitutional model with a division of powers between the Parliament, the Government, the administration and the courts;
- ❑ A public administration composed of small ministries and a large number of separate and independently managed government agencies;
- ❑ A self-governed local government sector responsible for most citizen-oriented services;
- ❑ Legislation guaranteeing an extensive access to public information.

The division of powers means that Parliament adopts all laws and appropriations. The role of the Government is to submit proposals to Parliament, to issue regulations if mandated by Parliament, and to issue instructions to the government agencies. All instructions to the agencies have to be in writing, to be adopted at a formal meeting of Ministers, and to be made public. The Government appoints the boards and managers of agencies at will. The Government may not interfere in an agency's interpretation and application of law. Decisions taken by the agencies can be appealed to an administrative court, and tried for conformity with the existing laws and regulations.

The thirteen ministries and the Prime Minister's Office have together less than 5 000 employees. All implementation of government policy and provision of public services [are](#) handled either by an independently managed government agency or by [an](#) autonomous local government. There are over 300 government agencies, ranging in size from almost 20 000 to 3 employees. Among these are the Armed Forces, the Government Office and the Police Service.

Local governments are subordinated to the Parliament but not to the Government. All statutes concerning local government activities thus have to be adopted by the Parliament as laws. There are 290 communes and 20 regional councils, responsible for city functions including water supply and waste collection, local and regional transport, primary, secondary and adult education, social services such as care for children, aged and disabled persons, primary health care and hospitals. Together [they are responsible for 73 percent of the public consumption](#) and employ 90 percent of the public employees in Sweden.

### 2.2 Performance management

A performance orientation is not a new feature in Swedish public administration. When the present constitutional model first was introduced in 1634, it was in order to meet the need for an efficient administration of ongoing war efforts<sup>2</sup> without allowing the King to use the new administration for his own purposes. In the 1930s, the Swedish Minister for Social Affairs preached that *every krona unwisely spent is stolen from the poor*. In the post-war period, the government pursued cost efficiency in order to allocate as much as possible to the expansion of the education system, the social services and the social insurances. In the 1990s, cost efficiency gained a new urgency as Sweden weathered a severe economic and financial crisis.

The present Swedish performance management model is built on the recognition that the quality and dedication of the public managers is essential for achieving high performance.

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<sup>2</sup> The so-called Thirty-years war, lasting from 1618 to 1648.

The managers must be able to lead, to motivate and to exploit the existing potential for performance improvements. They must also be allowed to manage. The Swedish agency governance model thus entails that agency boards and managers have been empowered by an abolishment of almost all central restrictions and regulations on agency activities. Agency heads are also provided with strong incentives for achieving acceptable results.

Performance budgeting in Sweden is therefore split into two levels. The top level consists of the system used in the Government's governance of the agencies. This system is much more limited in scope than the corresponding systems in countries with departmental organisations due to the different budget arrangements (see section 2.3). The lower level is composed of agency-specific systems used by agency heads for the management of their agencies.

A key role is thus played by the government agencies themselves since, at the end of the day, they are the ones who are expected to deliver results. The Government's attention is focused on how the agencies are managed, and how agency managers are motivated and stimulated to perform. Any performance-oriented system must also include an ability to reward good performances. It is however equally important to be able to hold managers and employees accountable for unsatisfactory performances.

Sweden doesn't have a formal senior civil service. Board members and agency heads are appointed at the will of the Government; board members for one year at a time, and agency heads for six years, with no guarantees for a continuation. Agency heads are not only selected from within the central government administration, but have a very varying background. The only constitutional limit on the Government's freedom to select the person that it wants is that the selection must be based on objective grounds. The Government may have to answer to the Parliament's Standing Committee on Constitutional matters for its handling of appointments.

Nor does Sweden have a civil service in the traditional sense. Each agency hires its own employees, and can terminate employment contracts if it has to reduce its staff. Again, the only constitutional limit on an agency's freedom to select the person to appoint is that the decision must be based on objective grounds.

Each agency also sets pay and other employment conditions for its employees. The basic pay model is individual and differentiated wages, which means that the entire pay system can be performance oriented. Employees performing above expectations can be given above-average pay increases, and employees that improve their capacities and skills and take on new [tasks](#) can be rewarded by pay increases. And – equally important – employees that under-perform or misbehave can be given below-average pay increases. An agency may also create a more sophisticated internal pay system.

Little is however known about how agencies have used these powers. No comprehensive compilation of pay systems is available since agencies don't have to report on the design of their pay systems.<sup>3</sup> What is clear is however that none of them has gone back to a system where pay only depends on such things as formal education and/or length of employment.

The performance management system is not and has never been controversial. It has evolved gradually under more than 20 years, and trade unions representing over 80 percent of the central government employees have participated in the design and implementation of the system. Its main weakness has been that line managers have turned out to be unwilling or uncomfortable to differentiate pay, and especially to single out low-performers for below-average pay increases. The government has also been criticized for not being sufficiently systematic and transparent when selecting agency heads, but [this](#) is now being improved.

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<sup>3</sup> Information on pay structures and pay levels is however available from the Agency for Government Employers, that represents the government agencies in central negotiations with the trade unions for central government employees.

## 2.3 The budget arrangements

Budget reforms aimed at strengthening the performance orientation of the budget process started already in the 1960s and involved experimentation with programme budgeting, zero-based budgeting and detailed budget submissions. The simplification of the budget structure started early, and involved a transition to accrual accounting. Working with programme budgets meant that agencies had to learn how to analyse their expenditure structures, and to link expenditure to output.

In the early 1990s, Sweden entered a deep depression caused by an inappropriate scheduling of economic reforms and macroeconomic policy mistakes. The employment ratio dropped from 80 to 70 percent in just two years, unemployment exploded and the public deficit rose to 14 percent of GDP. One part of the fiscal stabilisation policies that brought the Swedish economy back to balance was a major reform of the budget process.<sup>4</sup>

Its key elements were introducing multi-year budget frameworks and top-down budgeting, and strengthening the role of the Parliament's Standing Committee for Finance. The annual budget process now begins by Parliament setting an expenditure limit, and approving preliminary allocations for 27 expenditure areas. The Minister responsible for an expenditure area then proposes how the limit for that area should be divided among individual appropriations. When the Government later discusses its coming budget proposal, it focuses on the revenue side and on the reallocation of resources between expenditure areas. The Government's Budget Bill goes to the Standing Committee for Finance, which then asks other Standing Committees for their opinion. Parliament only votes however on the report of the Standing Committee for Finance.

The appropriations structure was also simplified in order to enable agencies to choose the most appropriate and cost-efficient operating structure. **All input budgeting was abolished.** A government agency **now** normally only receives a single appropriation for its own expenses, even if it is active within more than one policy area and/or more than one activity area<sup>5</sup>. This means that it is the agency itself that determines the allocation of funds to individual activity lines **and outputs**. There is no separate investment budget. Instead, each agency normally has to borrow for investments, and to repay these loans from future appropriations. Each agency **is given** a borrowing limit, and this means that the Government still has to approve major investments.

The use of single agency appropriations means that the Government's budget work focuses on the government organisations and not on the activity lines or output groups. The top level of performance budgeting is correspondingly limited in scope, and performance information is primarily used to assess the quality and adequacy of the agency management.

Each ministry may have information on how its subordinated government agencies have designed their internal budgeting arrangements. An agency's internal budget arrangements may also have been the subject of an external audit or evaluation. There is however no comprehensive compilation of agency budget arrangements available.

## 3 Public governance challenges

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<sup>4</sup> See Blöndal, Jón R.: Budgeting in Sweden, in OECD Journal of Budgeting, Vol. 1, No. 1; for an extensive description of the reform.

<sup>5</sup> See the description of the goals structure in section 7 for a definition of these terms.

### 3.1 The heterogeneity of the public activities

When the 19<sup>th</sup> century ended, the Swedish central government administration was still primarily the servant of the [State](#), responsible for its core functions and wielding authority over the citizens.

A hundred years later, much has changed. The public administration has acquired a broad range of functions in addition to the exercise of public authority. These include the responsibility for a broad range of physical infrastructures and of infrastructural and other services. The classical bureaucracy model for governing the public administration has turned out to be unsuitable for these new tasks.

It would be wrong to say that a rule-governed, hierarchical bureaucracy is always non-performing. It can be a high-performer, but the result of its activities has to be measured in qualitative rather than quantitative terms; [such](#) as due process, rule of law, uniform interpretation and application of regulations etc. The problem is that the bureaucracy doesn't perform well if you expect some other form of output or outcome, such as service provision and customer orientation.

It is possible to group the tasks of today's public administrations in a number of sets, each with its own properties and rationality, and its own optimal governing models:<sup>6</sup>

- i Policy advice and core government functions
- ii Exercising public authority
- iii Influencing public opinion and citizen's behaviour
- iv Providing services to citizens and enterprises
  - iv.a Public services with budget financing
  - iv.b Public services financed by user fees
- v Commercial activities exposed to competition

The key message here is not the exact model, but the conclusion that there is no single format or solution that will be optimal for all organisations. It is therefore necessary to adapt the implementation of performance management and budgeting to the prerequisites of each organisation. The fragmented central government administration in Sweden facilitates this adaptation of governance and management models to the character of each agency.

### 3.2 The character of public services

The public services – except for the purely commercial activities classified under set “v” in the previous section – operate under different conditions than private enterprises. The fundamental objective of a private enterprise is profit. This can then be qualified by discussions about short and long term perspectives and intermediary objectives. The key focus of public service is instead on spending money to achieve desired outcomes. The nature of these outcomes varies substantially across the public administrations, and the objectives guiding the public services are as rule both complex and contradictory.

The Customs Service has for example to balance control objectives against service objectives and regulatory simplification. The [Consumer Protection Authority](#) has to prioritize between different problems and types of complaints. A private school or a private clinic [is](#) able to target a certain customer segment, while the corresponding public organisations have to be open for all citizens in need of their services. Most public entities have to balance cost, volume, quality and allocation objectives against each other. The public services are also – at least in Sweden - subject to a number of additional restrictions that do not apply to private companies, such as respecting a public service

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<sup>6</sup> Rexed, Knut: A comprehensive framework for public administration reforms. International Review of Administrative Sciences, Volume 74, Number 1, March 2008

ethos, having a balanced workforce, being a good employer, observing special rules for hiring and for purchasing, and contributing to a balanced regional development.

The market price plays an important role for the governance of commercial activities. It can be seen as an aggregated measure for volume, quality and customer satisfaction. The market price for its production determines the enterprise's profit, and is a key element of all calculations of such measures as performance and productivity.

There is no similar aggregating variable for public services that are not sold at market prices. In order to determine the productivity of a budget-funded public service, one would have to find an appropriate quantified measure of the quality of its outputs, and combine this in an appropriate way with the cost of producing these outputs. Measuring performance is even more complicated, due to the uncertainty about the effect of the produced output on the outcome; that is on the observed changes in state that the Government wants to affect.

## **4 On the institutional interactions**

The three main interactions in the Swedish budget process are (i) between the Parliament and the Government, (ii) between the Minister responsible for the budget and the Ministers responsible for expenditure areas, and (iii) between Ministers and the agencies funded within their expenditure areas.

### ***Parliament - government***

Sweden is a parliamentary democracy, where the Government has to be supported (or at least tolerated) by the majority in Parliament. Parliament is also sovereign in budget issues, and the Government is dependent on its supporting parliamentary group for the adoption of the Government's proposals. This means that the majority delegates in the Parliament participate in the governance of the country, and do not see themselves as an external supervising and controlling body.

The budget reform in the 1990s strengthened the role of the Parliament's Standing Committee on Finance, and its Chair has become almost as powerful as the Minister of Finance. Parliament does not have a budget office of its own. Instead, the parliamentary staff serving the Standing Committee cooperates closely with the civil servants in the Government's Budget Office in order to provide joint factual assessments of the costs and economic effects of both majority and minority proposals.

The political advisors to the Finance Minister have frequent and regular meetings with the majority delegates in the Committee. In this way, the Minister can ensure that the Committee will pass his or her bills, and the majority delegates can voice their requests and concerns *in camera*. Similar meetings are being held between the political advisors to other ministers and the majority delegates in other standing committees. Ministers also meet with the majority delegates in "their" committees when necessary.

The Government provides performance information to the Parliament in the budget bill. This information is structured after the agency appropriations, and is thus normally only discussed in the relevant Committee.

Providing an adequate amount of information to Parliament has turned out to be a tricky business. Members of Parliament have a limited time and capacity for absorbing information, and too extensive and detailed performance information will only hide the significant information among masses of insignificant information. Too condensed performance information may on the other hand become so bland and general that it is meaningless.

### ***Finance minister – other ministers***



The Minister of Finance is responsible for presenting a cohesive draft budget bill for adoption at a formal Cabinet meeting. Cabinet decisions have to be unanimous, but Ministers are appointed and can be deposed by the Prime Minister. This means that a Minister might have to choose between accepting a policy proposal supported by the Prime Minister or resign.

In order to be effective, a Minister of Finance has to have the unequivocal support of the Prime Minister. His [or her](#) power lies in the rule that a Minister may only put forward draft proposals with economic consequences that have been read and approved by the Budget Office. A Minister receiving a “No” from the Minister of Finance either has to accept it, or appeal to the Prime Minister.

There are three important rounds of inter-ministerial budget negotiations. The first concerns the division of the [annual](#) expenditure limit between the 27 expenditure areas. The Minister of Finance tries to reach agreements with all other ministers, and any outstanding issues will be discussed at a Cabinet meeting, and then settled by the Prime Minister. Performances are rarely discussed at this stage. Instead the focus is on expenditure pressures, reform proposals and policy initiatives.

The second round concerns the division of the envelope for each expenditure area between the various appropriations contained within that area. This is in principle the responsibility of the Minister responsible for that expenditure area, and needs for additional funding will normally have to be handled by readjustments of other appropriations within the same expenditure area. The Budget Office may however intervene in these processes; either because a proposal would have a long-term effect on expenditure, or because it sees a potential for a reduced appropriation [that it](#) wants to use for reallocation to another expenditure area.

The third round concerns the annual Letters of Instruction to government agencies. They determine the mission and goal of each agency. The Letters are the responsibility of each Minister, but they also have to be approved by the Budget Office. It uses this control to ensure that appropriate steps are taken to improve the performance, efficiency and productivity of each government agency. At the same time, it is careful not to take over any part of the responsibility, and works with standards and requests rather than with concrete proposals.

This round can be very confrontational if the Budget Office wants a Ministry to take steps that it tries to avoid or delay, or when the Budget Office wants an in-depth evaluation of an agency or of an activity line. Normally however, the Budget Office only assists the Ministries in drafting proper goals and missions for their agencies, and in identifying appropriate reporting requirements. It is probably this round that has found most use for the performance information.

### **Minister - agency**

The main round of interaction between a Ministry and an agency under its tutelage concerns the annual Letter of Instruction. The drafts are always sent to the agency concerned, and are then the subject of informal consultations between the agency and the Minister's staff. There is no formal requirement that agency managers underwrite the goals and missions listed in the Letters, but the informal consultations [entail](#) a moral commitment to deliver on goals that have been accepted.

A Swedish Ministry is a very small entity, compared with the departmental systems in i.a. France, the United States and the United Kingdom. The Government Office, comprising the 13 ministries and the Prime Minister's Office, has less than 5 000 employees. All other [central government](#) employees are employed by the over 300 separate government agencies that are responsible for all policy implementation and service delivery. This means that the agencies normally have information superiority, and that ministries may have difficulties in drafting appropriate Letters of Instruction without assistance from the

agency concerned. It sometimes even happens that an agency presents a draft Letter of Instructions to its parent ministry.

The reporting requirements are as important as the mission statements and the goals. First, and most importantly, they allow the ministry a degree of control over the information that is produced and provided to the ministry. Secondly, they have themselves a guiding influence, since they communicate the ministry's concerns to the agency. The [Letter](#) of Instruction also contains the restrictions, if any, to an agency's use of its appropriation and provides the mandate, if any, for its collection of fees.

There are normally recurring informal meetings during the budget year between a ministry's civil servants and each agency under the ministry's tutelage, enabling the ministry to follow the developments of the agency's activities and enabling the agency to signal concerns and requests for guidance. [Each agency also provides financial reports to the Financial Management Authority at regular intervals.](#) The governance system foresees an annual informal performance dialogue between the Minister and each head of an agency under his/her tutelage. This performance dialogue is structured and based on background information assembled by the ministry's civil servants, and including the available performance information.

These informal dialogues are controversial. Their content is never documented, and their critics argue that an important part of a ministry's governance of its agencies is thus shielded from [public](#) scrutiny. A minister might for example use these informal dialogues to influence the agencies in a manner that is incompatible with the Government Act. It is however hard to make a clear distinction between agency responsiveness to the Government's policies [and priorities](#), and what is improper ministerial actions.

## 5 On setting goals

The key to performance management is setting the goals and/or standards against which performance can be measured or assessed. This section looks closer at the way goals are formulated.

The Swedish Government works with a hierarchy of goals. The expenditure areas are not used for this purpose. Instead, goals are set for 48 policy areas. Most of these goals are highly political, and they are submitted by the Government to Parliament for approval. Each policy area is then broken down into a number [of](#) activity areas and activity lines. A government agency may be active in more than one policy area, activity area and activity line, and several agencies may be active in the same policy or activity area. Activity lines tend to be agency specific. The formal goals are often supplemented by reporting requirements that in reality function as implicit goals.

A survey of a number of Letters of Instruction for Swedish government agencies shows a spectrum of different ways of expressing the goals.<sup>7</sup> The goals can broadly be grouped into six categories.

- ❑ Effect goals
- ❑ Orientation goals
- ❑ Activities to be undertaken
- ❑ Production targets
- ❑ Efficiency targets
- ❑ Process and quality goals

The goals discussed by Parliament are normally effect or orientation goals indicating what the Government wants to achieve. The key element in goal setting is the translation of [these](#) effect goals into the activities that are thought to give the optimal contribution

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<sup>7</sup> No formal survey is available, and there is no comprehensive list of goals. This section is instead based on a limited number of selected Letters of Instructions.



towards the effect goals. This is a complicated task, since there are no simple one-to-one correspondences between public goals and public activities. Instead, it is essentially a question of political judgment.

The agency-specific goals are on the other hand seldom effect goals. Instead, they are dominated by orientation goals and by prescribing activities that are to be undertaken. The final choice and design of agency operations are normally left to the discretion of the agency boards and managers. This is a logical consequence of the devolved accountability for results. There are however some examples of quantitative production goals, for instance for the different labour market measures administered by the Public Employment Service

Quantified efficiency goals are rare, but agencies may be instructed to improve efficiency in specific processes. Process goals mainly concern specific aspects of service quality. General efficiency, probity and quality goals are [normally communicated through general policy documents and not included in Letters of Instruction](#).

If one looks at the evolution over time of the goals for [a specific](#) agency, one finds two somewhat contradictory trends. [In some cases](#), goals become less detailed. The Government, for example, no longer specifies the maps to be produced by the National Land Survey. The Land Survey is instead instructed to meet the demand for geographical information and to ensure long-term stability and reliability of the information supply. [In other cases](#), goals tend to multiply due to a political need to signal responsiveness to many [different](#) stakeholders. A couple of years ago, the Consumer Agency had over 80 goals without [any](#) clear priorities between them.

There has been an extensive debate in Sweden about the goal setting process. Management scientists question if the performance of an organisation can be governed in this way. A Government Commission recently went as far as suggesting that the entire goal hierarchy should be abandoned.<sup>8</sup> What is clear is that the responsible ministries have had problems formulating adequate and appropriate goals that have a governing effect. Goal setting is however a learning process, and the fault lies in my view less in the system as such, and more in [the](#) small ministries lacking sufficient capacity for and experiences from goal setting.

Those who engage in goals setting should always be aware of its implicit dangers and pitfalls. The goal structure can be distorted by an insistence that the degree of achievement of the goals should always be measurable. The outcome may be distorted through a neglect of other aspects of the operations. There are an abundant number of pre-1989 examples of these types of distortions from the centrally planned economies in Eastern Europe and Russia.

## **6 On performance information**

### **6.1 The information management paradigm**

Performance management and performance budgeting requires access to adequate information about the performances of the different parts of the administration. The next two sub-sections will cover the information sources used in Sweden, and the use to which this information is put. Before that, it is however necessary to highlight three general aspects of the management of performance information.

Firstly, information is never free of charge. The cost of collecting performance information can be substantial. The major sources of information are, as noted in the

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<sup>8</sup> The Government is at present considering this proposal and may propose a revision or replacement of the present goal setting process in the budget bill for 2009.

next sub-section, the existing financial management and other digitalised business systems used in the public administration. The information already contained in these systems can be identified through data mining and utilized [through](#) programming of report generators. There is an initial cost for this, but the recurring production costs are negligible. The costs will increase if the systems are adapted so that they require that more information is entered into the system. As soon as one sets up new arrangements for collecting information, such as surveys or external evaluations, costs will however increase more markedly.

Information should therefore not be collected unless access to that information would generate sufficient added value to motivate the collection costs. Before deciding on collecting new information, one should thus assess (i) the costs associated with setting up and operating this collection; and (ii) the use to which this information will realistically be put. One of the factors that have to be taken into account is the ability and propensity of the recipients to take in and use the additional information.

Secondly, information is always incomplete. One reason for this is the cost dimension discussed in the previous paragraphs. Another reason is that there may not be time to collect more information before a decision has to be taken. A third reason may simply be that the required information is not accessible. There is therefore always a risk that decisions are distorted by being based on existing partial information instead of relevant information. The available information should therefore never be taken at face value, but be analysed for relevance, appropriateness and validity.

In the mid 1990s for example, the Swedish Customs Service's catches of drugs at the border to Denmark dropped substantially.<sup>9</sup> This was initially interpreted as a decreased performance due to staff discontent caused by downsizing after Sweden joined Denmark in the European Union. It was however later discovered that it was actually the result of an *improved* performance that had led to smugglers re-routing their shipments via Norway. Another classical example is that the volume of reported crimes may actually increase when the Police Service becomes more efficient, and citizens become more motivated to report petty crimes.

Thirdly, too much information may be as bad as too little information. Decision-makers rarely lack information, but more often have problems separating significant information from flows of non-significant information. In order to avoid information overload, one should strive to target reporting on significant variables and to avoid collecting more information than can and will be analysed and used. Targeted reporting requirements also send a clearer signal to the services about the government's concerns and targets. Asking services to put efforts into generating information that [then](#) never is visibly used is on the other hand very demoralising.

This is one of the reasons why Sweden has separated reporting in a limited set of general reporting requirements – mainly concerning financial management but also some human resource management aspects – and a more diverse set of agency-specific requirements that can be tailored to the needs of the parent ministry of the agency concerned.

## **6.2 The information sources**

There is no single source of performance information, and it can be advantageous to get information from several independent sources. There are at least six different types of data sources used in Sweden. They are not all used for every agency. Instead the information to be collected is determined on an agency-by-agency basis by the parent ministries. The six types are

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<sup>9</sup> The author was at that time State Secretary in the Ministry of Finance, responsible for i.a. [issues](#) related to the Customs Service.

- ❑ The financial reporting system
- ❑ Other internal business systems
- ❑ External autonomous sources
- ❑ Customer and client (stakeholder) surveys
- ❑ Self assessments
- ❑ External assessments

The *financial reporting system* is standardised, and the Financial Management Authority<sup>10</sup> rates the quality of the agencies' financial reporting annually. The standard set of information generated by the [standard system](#) is limited, and mainly concerns expenditure data that is needed for [expenditure forecasts and for](#) the aggregated accounts of the central government sector. Agencies are at the same time expected to adapt the [standard system](#) to their own internal needs, and to ensure that expenditure can be linked to output. Most agencies are therefore able to generate information about the costs associated with specific output elements.

Other *internal business systems* are not standardised, and varies in design and content from agency to agency depending on the line of activity. The information in these systems can be retrieved at a relatively limited cost. Most case handling agencies can for example provide information on caseload and case handling times. The Customs Service can provide information on contraband seizures and detected errors in export-import declarations. The Public Employment Service can provide information on the flows in and out of unemployment and [of](#) labour market measures.

Sometimes it is possible to use *external information sources*. Customs Services can for example use short-term variations in the street price of illicit drugs as an indicator of the undetected flows of drugs into the country. International surveys of for example the business climate or the incidence of corruption can be used as indicators of the quality of the public administration. [The Tax Payer's Association assesses the performance of local governments.](#)

Specially designed *customer or stakeholder surveys* based on statistical methods are costly, and are therefore only used when there is a special need for them. Many agencies collect regular feedback from customers and stakeholders about the quality and appropriateness of the public services, but this information is not equally reliable. All surveys also involve degrees of uncertainty, and have to be treated with reservations. They are most reliable when used to generate a time series for an agency or an activity.

Agencies are sometimes asked to make *self-assessments* of their activities and performances. One of the advantages of these is that they force the agency concerned to consider and evaluate its own structure and activities. The experiences of this type of assessments are however not completely positive, since there have been cases where an agency has failed to be sufficiently professional and introspective, and where its report has been unusable. Self-assessments are therefore seen as a management tool rather than as a governance tool.

*External assessments* are undertaken on an ad hoc basis. The National Audit Office<sup>11</sup> is a parliamentary agency that makes independent performance audits of selected agencies and activities. The Government commissions performance evaluations when it feels that there is a need for additional information. These may be done by a specially appointed government commission, by an external contractor, or by another government agency.

The Agency for Public Management<sup>12</sup> is a staff agency that assists the government in different ways, including evaluations of other government agencies and their activities. This agency primarily handles evaluations that can't be contracted out. The reasons may

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<sup>10</sup> Ekonomistyrningsverket, ESV

<sup>11</sup> Riksrevisionen. [www.riksrevisionen.se](http://www.riksrevisionen.se)

<sup>12</sup> Statskontoret. [www.statskontoret.se](http://www.statskontoret.se)

be that the evaluation requires a special competence, that it requires special confidentiality, that it is expected to be interactive or that it is very urgent. The Financial Management Authority also undertakes evaluations on behalf of the Government.

Lately there has been a discussion about establishing a schedule for recurring external assessments of each agency and its activities; preferably linked to the six year terms of the agency heads. The Government has however been concerned about the cost/value balance of an automatic schedule, and has so far preferred the ad hoc approach.

### 6.3 Using performance information

In its policy brief on performance management<sup>13</sup>, OECD notes that there is no single model of performance budgeting. It defines performance budgeting as budgeting that links the funds allocated to measurable results, and identifies three broad types or modes. *Presentational performance budgeting* simply means that performance information is presented in budget documents or other government documents. In *performance-informed budgeting*, resources are indirectly related to proposed future performance or to past performance. *Direct performance budgeting* involves allocating resources based on results achieved.

The Swedish governance model described in section 2.2 means that performance information is primarily used for assessing the quality of the governance and management of the central government agencies. Actions taken to deal with sub-standard performances are also normally targeted at governance and management functions rather than on budget allocations.

OECD notes that direct performance budgeting is used only in specific sectors in a limited number of OECD countries. This is not surprising, since there is a set of conditions that has to be present for this mode to be a rational option. First, there has to be several units operating under comparable conditions. It must also be possible to correct for result-affecting external influences. Secondly, all units must be able to service all customers or clients referred to or choosing the unit. Finally, it has to be service-producing units with budget financing (that is belonging to type IVa in scheme in section 3.1).

In the late 1980s, the national board of the Public Employment Service discussed and rejected the use of direct performance budgeting for the local employment offices.<sup>14</sup> The reason was that their performance – measured in such terms as placement ratios or changes in unemployment levels and vacancy durations – depended heavily on the developments of the local labour market. It was [therefore](#) normally more rational to *increase* the resources of offices where the achieved results deteriorated than to decrease them.

One area where the set of conditions is present is the university sector, and there Sweden uses a form of direct performance budgeting. Resources for courses are allocated to the different universities depending on how many students they are able to attract and on the numbers of students that graduate each year. These quantitative measures are combined with minimum quality requirements for graduation.

The budgeting arrangements for the university sector is at the same time an example of the use of *citizen's choice* as a model for allocating resources between different service units. This model is used in Sweden for schools and primary health care centres, and also increasingly for other local government services for children, old and disabled persons. The argument behind this model is that the [citizens](#) themselves are more able to assess the quality of the provided services than a central budget office. The model doesn't eliminate the need for performance information. Citizens have to have access to information about the quality of the services provided in order to make informed and

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<sup>13</sup> *Performance Budgeting: A Users' Guide*. OECD Policy Brief, March 2008.

<sup>14</sup> The author served on the national board of the Public Employment Service at that time.

rational choices. The [Government](#) also needs information on the average quality of the services in order to determine the appropriate level of resources per person served.

It is virtually impossible to compare the performances of units involved in different types of activities. Take for example the four main services in the legal sector, that is the police, prosecution, court and prison services. There are no common performance indicators for these services, and the performance of one service depends on the performances of the other services. Consider a case where indicators show that prosecutors have improved their performance faster than courts. That would in our view motivate rewarding the managers and staff of in prosecution service (and possibly reviewing the standard of management in the court service). It would at the same time be hard to see this as motivating a transfer of resources from the courts to prosecutors.

There are however cases where performance information can be of importance for the Parliament's decisions. One such case is drug abuse control policies. The main contributors to the aggregated outcome of these policies are the Customs Service (reducing inflow), the Police Service (reducing retailing), the social services (treating addicts) and [information activities](#) (reducing propensity to use). The Parliament would benefit from information on the marginal effect of resources allocated to each of these four [sets of activities](#) in order to determine the optimal allocation of resources between [the four sets](#).

## **7 Performance budgeting at sub-central levels**

The decentralised and fragmented nature of the Swedish public administration raises the question of how and to what extent the use of performance management and budgeting at the national government level leads to an increased use of performance management and budgeting at other administration and government levels.

Sweden has opted for a governance model that lets the managers manage. There are therefore no formal rules or regulations about the management and budgeting within central government agencies. The only restrictions are that their accounts must be kept and reported in a standardised way, and that they must be able to provide the information requested by the government in their annual Letter of Instruction.

No comprehensive compilation of internal management and budgeting systems is available, since agencies don't have to report on the design of these systems. A reasonable assumption is however that small agencies with traditional bureaucratic tasks continue to have fairly traditional internal management and budgeting systems, while large agencies with an extensive service production have been more prone to modernise their internal systems and to bring them in line with the national system. There are however some obvious exceptions. One of them is the Armed Forces, which has one of largest agency budgets, but which have not yet managed to implement an appropriate budgeting and accounting system.

Local governments are directly elected, have substantial own tax revenues, and are not subordinated to the national government. Their activities are however regulated by normal laws, and they are dependent on annual block transfers from the national budget.

The national performance management and budgeting systems have probably little direct influence on the corresponding local systems. Both management and budgeting systems tend to be less developed at the local government level, although the largest communes and regional councils are probably at par with the largest central government agencies. Again, however, there is no comprehensive compilation of these systems.

## 8 Closing words

In the previous sections, I have tried to summarise the basic elements and experiences of performance management and budgeting in Sweden. I will end by drawing four salient conclusions.

The first is that performance budgeting is more than just a technical method. It is part of a more general cultural re-orientation and it has to be combined with reforms of other administrative systems and practices if it is to generate the expected improvements. Nor is it a well-defined one-dimensional tool. Its design and application has to be adapted to the character of the different sets of public activities.

The second is that this cultural re-orientation requires new skills and competences, and that it involves an extended learning process, whose duration should be measured in years or even decades rather than in days or months. It is a re-orientation from a pre-occupation with forms and procedures, to a focus on results and processes. It also involves developing a new attitude to change, from treating it as discrete events to [seeing it as](#) a continuous evolutionary process.

The third is the need to combine performance budgeting with distributed accountability for performances and results. Managers and staff at all levels must be aware of their responsibility for results, and of their opportunities for contributing to results. A corollary is that their rewards should be influenced by the way in which they have assumed this responsibility.

Fourth is that this requires that we let the managers manage. Instead of relying on a centralized command or on a requirement of ex-ante approvals for expenditure and operational decisions, managers should be empowered through the creation of spheres of managerial discretion. At the same time, the special nature of the public services means that audit and assessment functions have to become both strengthened and more proactive.