

Executive summary

The Value for Money in Government study

This report presents the results of the assessment of the organisation of the central government of Sweden. The report is part of a series of similar assessments that have been carried out for the OECD Value for Money in Government study, which is a multi-annual project that aims to identify reforms currently undertaken or planned in OECD countries that are interesting from the point of view of value for money. The study looks at reforms that are aimed at improving the quality of services (more value) and efficiency (less money) in central government.

This assessment is based on an inventory of some 70 reforms and reform trends concerning the organisation of central government currently undertaken or planned in OECD countries. These reforms and reform trends will be presented in the final report of this series entitled *Building on Basics* (forthcoming).

Information for the OECD Value for Money in Government study has been provided by the 13 OECD countries that are taking part in the project: Australia, Austria, Canada, Denmark, Finland, France, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and the United Kingdom.

Benchmarks for Sweden

Compared to the other countries included in the Value for Money study, the size of general government employment (including local government) is large in Sweden, even when excluding health and education (which are almost entirely inside the general government in Sweden), as is the case in other Scandinavian countries. Sweden has the second largest employment in general government, surpassed only by Denmark. The large public employment in Sweden is concentrated at the local level. Sweden's centralisation rate (excluding health and education) is 28.2, which is the second lowest of all of the countries participating in the study (only

Denmark has a lower rate, at 23.0). This can be explained by the fact that the delivery of social services in kind is largely delegated to local government.

Central government excluding health and education is quite similar in all countries participating in the Value for Money study (3-5% of domestic employment, 14-22 government employees per 1 000 inhabitants). In Sweden, central government employment is 4.4% of domestic employment and there are 18.9 employees per 1 000 inhabitants.

Information about administrative employment is collected for the Value for Money study by statistical surveys called “snapshots of the public administration”. These surveys distinguish between core ministries, arm’s-length agencies and independent agencies. An arm’s-length agency is defined as an agency for which the minister is responsible as far as executive policy is concerned, but not necessarily for handling individual cases. An independent agency is defined as an agency for which the minister is not responsible as far as executive policy is concerned (nor for the handling of individual cases). In accordance with these definitions, Swedish agencies are mostly classified as arm’s-length agencies.

It appears from the snapshot data that the Nordic countries (including Finland) stand out from the rest in that they have very small core ministries. Sweden has the smallest core ministries of all of the countries participating in the study (4.2% of administrative central government employment versus 22.6% on average). Sweden hardly has any employment in independent agencies (0.2% of administrative central government employment), but it should be kept in mind that Sweden’s arm’s-length agencies are relatively autonomous compared to those of other countries in that the responsible minister is not allowed to interfere in individual cases. Countries that have a clear policy as to the status of independent agencies, based on explicit criteria (Austria, the Netherlands), tend to have a larger share of administrative employment in independent agencies.

In line with the tenor of employment data, it turns out that Sweden is very decentralised from the perspective of expenditure data (47.9% local government versus 29.7% on average). From the expenditure perspective, Sweden stands out even more starkly than from the employment perspective as one of the most decentralised of all countries participating in the Value for Money in Government study, second only to Denmark.

Sweden spends about average on collective services in kind (21.4% versus 21.1% on average) and on collective cash transfers (35.3% versus 36.5% on average). The Swedish central government spends less than average on individual goods in kind (24.5% versus 27.6% on average), mainly because of the decentralisation of health care spending (which is the responsibility of local government in Sweden). Sweden spends substantially

more than average on individual cash transfers (40.2% versus 33.1% on average), mainly due to generous social security arrangements.

Patterns of spending have an impact on government employment, mostly via two channels. The first is the rate of outsourcing, which reduces government employment. The second is the labour intensity of outputs. It turns out that the rate of outsourcing in the Swedish central government is 54.7%, which is about average in the Value for Money countries (53.6%). The labour intensity of Swedish central government output is relatively high (the share of employment compensation of total spending on goods in kind excluding health and education is 26% versus 20% on average). This is mostly due to the fact that the Swedish central government has much larger employment in social service provision in kind than other countries included in the Value for Money in Government study, where social service provision is more decentralised while still largely financed by central government.

In Sweden, the own tax share in total revenue of local government is the highest of all of the countries participating in the Value for Money in Government study (66.9% versus 40.5% on average), largely due to the fact that income is mostly taxed by local government. The largest part of other local revenue consists of grants. A smaller part of other local revenue consists of non-tax revenues: sales, fees, property income and subsidies.

Previous reforms in Sweden

During the 1980s, public expenditure grew at a steady pace. In the mid-1980s, there was an increasing political consensus that the growth of expenditures had to be halted. A report from the Swedish National Audit Office from 1984 showed that there were considerable shortcomings in expenditure control procedures which led to overspending. The combination of rapid spending growth and public criticism of limited budget transparency built up the political pressure for a reform of public finance management.

The Government Bill on Management of Central Government Administration addressed issues concerning the information on the operation of agencies available to the *Riksdag* (the Swedish Parliament) and the government, and the capacity of the latter for effective steering of the agencies. The proposals presented were intended to strengthen the *Riksdag*'s and the government's continuous monitoring of the work of the agencies. The main aim of the law was to ensure that the focus of operations corresponded to the politically declared guidelines and priorities and to check that money had been used in a cost-efficient way.

In the early 1990s the Swedish economy experienced a deep economic crisis, leading to massive bank failures. GDP fell and unemployment rose dramatically. The crisis had serious consequences for public finances. At the

end of 1993, the central government debt corresponded to 76% of GDP, an increase by 30 percentage points since the beginning of the decade. The increase in consolidated gross debt was almost as large. The central government borrowing requirement was almost 17% of GDP. In 1994-95, there were long-term interest rate differentials to Germany of the magnitude of three to four percentage points for ten-year government bonds.

The Social-Democratic government which took office in 1994 rejected fiscal policy expansion. The assessment was that the initial position did not allow any expansive experiments. Instead, credibility was strengthened and lower interest rates promoted by a deliberate consolidation programme, extending over a number of years.

The definitive turn came after the change of government in 1994 when awareness of budget consolidation became clear. A new model for the parliamentary budget process was introduced in the Central Government Budget Act. Henceforth, the budget was to be decided in two stages. First, the *Riksdag* was to determine the framework for each expenditure area; second each area envelope was to be distributed of appropriations. A few years later, the Central Government Budget Act was revised. The overall objective of the reformed budget process was to put in place a more rigorous process and tighten control of expenditure growth. The revision led to the introduction of a fixed expenditure framework based on an aggregate ceiling for general government as a whole. The revision also specified more clearly the role of the *Riksdag* during budget preparation. The changes intended to prevent Sweden from once again ending up in the similarly difficult fiscal situation of the beginning 1990s.

The Central Government Budget Act established clearer formal requirements for the government to report the results of operations to the *Riksdag*. It stated, among other things, that the government must report to the *Riksdag* the objectives set and the results achieved in the various areas of activity. In the Budget Bill for 1998, the prescribed changes concerning the reporting of results and the explanation of the link between objectives and results within each expenditure area were implemented.

Efforts to improve the reporting of results continued during the late 1990s and led to the introduction of a new reporting structure in each expenditure area in the Budget Bill for 2001. However, one consequence of the activities structure was that draft budgets and results were reported in two different structures. Draft budgets were reported on the basis of an appropriation structure within each expenditure area, whereas the results were monitored in an activities structure, made up of policy areas, areas of activity and branches of activity which had no transparent relation to the appropriations structure.

The *Riksdag* criticised this new reporting structure. In light of this criticism, the government reformed its procedures for agency steering with a view to more stability and more pragmatic working methods. In the Budget Bill, the activities structure was abolished. Instead, the results of the activities financed by an appropriation within an expenditure area are reported. Reports will be tailored to the government's and the *Riksdag*'s need for information and the nature of the activity. This means that greater flexibility has been introduced in the design of the government's reporting of results to the *Riksdag*.

Since 2009, the agencies' instructions, or equivalent documents, have been the key policy documents for the government's management of agencies and activities. The instructions establish the agencies' basic tasks and areas of responsibility. They are the basis for the interaction through steering and reporting between the ministry and the agency. The basic premise is that the agencies are to report and to be assessed on the basis of the results they can control. To a decreasing extent, the government's steering task is implemented through extensive appropriation directions.

Ten priorities for reform

This report presents the ten reforms or reform trends from the list of 70 to be presented in the forthcoming *Building on Basics* that in the view of the OECD Secretariat are particularly interesting for Sweden.

The reforms are organised by type of government task:

- Policy development:
 1. Introduction of a top civil servant in the line ministries.
 2. Stricter rules for political advisors in the line ministries.
 3. Strengthening policy development in the line ministries.
 4. Streamlining policy evaluation.
 5. Creating an independent forecasting institution.
- Policy execution:
 6. Process sharing and merging of agencies.
- Administrative supervision and regulation:
 7. Independent regulatory and supervisory agencies.

- Support services:
 8. Service sharing by agencies.
 9. Introducing spending review.
 10. Financing e-government.

The proposed reforms lead to the following recommendations.

Reform 1: Introduction of a top civil servant in the line ministries

- The Swedish government may consider introducing top civil servants in the line ministries (“permanent secretary” or “secretary general”) tasked with harmonising expert views and factual information that serve as the objective basis for political decision making, including formulating options for policy development. In addition, the top civil servant could be tasked with the operational management of the ministry. In the latter areas, the top civil servant could: *i)* supervise operational management of the core ministry; *ii)* direct support services located in the line ministry; *iii)* supervise operational management of the agencies under the umbrella of the ministry and advise the minister on the financing of the agencies; and *iv)* take care of decentralised standard setting on operational management for both the core ministry and the agencies within the government-wide rules on operational management set by the government.
- In order to prepare such a reform, the Swedish government may consider establishing a special commission to look simultaneously at reducing the number of political advisors.

Reform 2: Stricter rules for political advisors in the line ministries

- The Swedish government may consider commissioning a study on the role of political advisors along the lines of the Danish report “Civil Service Advice and Assistance to the Government and its Ministers (2004)”. The study could also address the need for political advisors in connection with possible civil service reforms and develop options for reducing their number. The study should be commissioned to a high-level working party including external experts (possibly including experts from other Scandinavian countries) and senior civil servants.

- The Swedish government may consider establishing a statute for political advisors containing rules for appointment, term of office, standards of conduct different than those for the civil service, declaration of private interests and publication of names, job descriptions and profiles. It may also consider establishing an independent procedure for handling and investigating breaches and imposing sanctions as recommended in the OECD report *Ministerial Advisors: Role, Influence and Management*.

Reform 3: Strengthening policy development in the line ministries

- The Swedish government may consider strengthening the policy development capacity of core ministries by:
 - promoting the career development of the permanent civil service within the broad policy area (circulation of civil servants between core ministry, agency, private research institutes and local government, all within the policy area);
 - ensuring that core ministries have access to relevant and independent policy research and analysis. This requires that dedicated resources for this purpose be made available.
- The Swedish Government may consider articulating more clearly the role of the core ministry in the commissioning process, while maintaining the important role of executive agencies; the latter can be tasked with elaborating proposals to be submitted by the commission.

Reform 4: Streamlining policy evaluation

- The Swedish government may consider:
 - establishing government-wide evaluation standards that set out clear guidelines and standards of best practice in evaluation methodology to ensure that all policy and programme evaluations are conducted using appropriate and rigorous analytic methods in accordance with the Canadian framework and the United Kingdom's *Green Book*;
 - abolishing the evaluation tasks of agencies and transferring the conduct of evaluation to universities and private sector research institutes. The Danish reform of public research institutions provides a model for undertaking this reform.

- Some of the savings made by abolishing a large number of the 35 autonomous evaluation agencies could be reinvested in: *i)* building evaluation expertise within line ministries; and *ii)* allocating each line ministry a dedicated policy evaluation budget.

Reform 5: Creating an independent forecasting institution

- The Swedish government may consider merging the National Institute of Economic Research and the Swedish Fiscal Policy Council into an independent fiscal institution (IFI), while further strengthening its independence by providing it with the legal statute and establishing a supervisory board of prominent academic economists that approves its work programme.
- The Swedish government may consider using the forecasts and costing estimates of the IFI as the basis for its budgetary and financial policy and integrating the forecasting and costing of staff of the Ministry of Finance in the IFI.
- The Swedish government may consider strengthening the costing role of the IFI by ensuring that costing services are freely available to parliamentarians and parliamentary factions and tasking the supervisory board to see to it that the services in this area are provided in a non-partisan way. Before parliamentary elections, the institute could offer to provide costings for electoral platforms to all political parties represented in Parliament.
- The supervisory board could also see to it that costing services are provided to civil society at cost price in a way that enables the institute to serve as a generally accepted costing institute for government policy.
- If the Swedish government should consider establishing an IFI along the lines of the previous recommendations, it should take the OECD Principles of Independent Fiscal Institutions fully into account.

Reform 6: Process sharing and merging of agencies

- In light of the high number of Swedish executive agencies, the Swedish government may consider conducting a government-wide study on potential savings to be realised by establishing common process agencies and wholesale merger of agencies. The study could focus on similarity of services or of clients.

- Funding and operational management of common process agencies or merged agencies should remain the responsibility of a single line ministry. Other client ministries should negotiate their financial contributions with the owner ministry (not directly with the common process or merged agency) before the conclusion of the funding contract with the agency.
- All client ministries should have a role in the permanent performance dialogue with the common process agency or the merged agency. The performance dialogue should be conducted in a co-ordinated way under the leadership of the owner ministry (not by each client ministry separately).

Reform 7: Independent regulatory and supervisory agencies

- The Swedish government may consider introducing special legal statutes for administrative supervisory and regulatory agencies (both economic and social supervisory and regulatory agencies) that grants them independence for their executive policies in addition to their already existing independence concerning decisions in individual cases.
- In order to strengthen the skills and competences of the staff of economic supervisory and regulatory agencies, the Swedish government may consider merging agencies that carry out tasks that require similar forms of expertise.

Reform 8: Service sharing by agencies

- The Swedish government has taken important steps towards increasing the use of shared service providers. The government should, however, consider a stronger central push (top-down approach) on agencies to take up the services provided. This may be necessary to harvest the gains and accomplish the ambitious vision of cost savings.
- The Swedish government should ensure that, in the elaboration of the governance arrangement for the new National Government Service Centre, the responsibility for financing and operational management should rest with a single ministry (preferably the Ministry of Finance). The responsibility for the co-ordination of the permanent performance dialogue with the client agencies should be attributed to the same ministry. All client ministries should participate in the permanent performance dialogue.

- The potential for shared services in additional functions should be investigated, for instance in procurement and accommodation, real estate and facilities.
- As Sweden has established standards for operational management on several functions, there might be additional savings in standards on the remaining functions like communications and accommodation, real estate and facilities. The government should consider establishing central standards for these functions.

Reform 9: Introducing spending review

- The Swedish government could consider strengthening the spending review procedures by introducing a multi-year review cycle in which all major spending programmes are reviewed. This may follow the Dutch and British examples where a comprehensive review is undertaken periodically in line with the update of expenditure limits (United Kingdom) or in the year before elections (Netherlands).
- The government could formalise key features of the system as this will reduce the need for budget analysts to “reinvent” the system with each review. Essential elements are: the Minister of Finance should decide on the selection of policy areas to be reviewed and the composition of the working parties. The system could be strengthened by establishing a clear set of expectations in terms of both the content and the treatment of recommendations from spending reviews. For example, in the Dutch system, spending reviews are expected to provide at least two options for new policy, one of which needs to provide a 20% reduction in current spending levels. Individual spending reviews should be carried out by working parties that include the responsible line ministry, the Ministry of Finance, the Prime Minister’s Office and other ministries involved in the policy area. The working groups should be chaired by independent officials (who do not carry responsibility for the policy area) and include external experts. Spending reviews should be published and made available to Parliament, the public and political parties.
- The Ministry of Finance should create a spending review unit to support the review process and undertake some of the initial research. This is the current practice in the Netherlands and

Australia, where teams of approximately ten officials provide the expertise and technical skills to support working parties undertaking individual reviews. The secretariat should also provide an interface between the individual reviews and the broader budget process by ensuring that the reviews are conducted in a timely manner and that they remain focused on questions that lead to recommendations that can be used in the budget process.

- The reviews should focus on the efficiency and effectiveness of current policies including the appropriateness of current service levels and delivery systems. Reviews should contain policy options to improve efficiency and effectiveness and also include obligatory savings options of a certain percentage (at least 10% to be determined at the start of each round of reviews). Options to increase expenditures should not be allowed in spending reviews as such options can be developed by the line ministries themselves.

Reform 10: Financing e-government

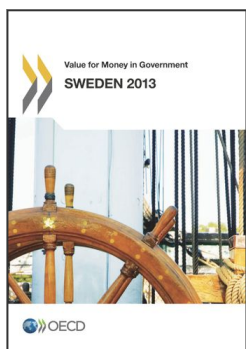
- The Swedish government may consider introducing a stronger gateway procedure to ensure the quality of e-government projects. This process should always lead to an unambiguous conclusion on whether a proposed e-government project will lead to savings in the medium term against the baseline of current policy. The business case proposed by the responsible minister should be explicit about costs and savings, year by year, for a period covering the medium term. E-government projects that do not lead to savings should only be decided if proper compensation is provided in accordance with the rules of the budget process.
- The Swedish government may consider taking further steps in the development of a strategic, long-term view on the organisation of ICT support. It is important that the new shared service centre develops its own ICT unit that can fulfil all tasks in the area of ICT that the Swedish agencies need (systems development, advice on ICT procurement of hardware and software, management of portals, intranets and help desks, office automation).

Table 0.1 provides an overview of the quality improvements and potential savings of the ten priority reforms discussed in this report. Savings are characterised in relation to current operations costs of the units concerned. Savings could not be quantified by the OECD Secretariat but are

estimated as moderate or large in the light of available information. A moderate saving (less than 20%) of large units can be larger than a large (more than 20%) saving on small units.

Table 0.1. **Survey of value for money effects**

	Reform	Quality improvement in administration	Quality improvement in service delivery	Savings
Reform 1	Introduction of a top civil servant in the line ministries	X		
Reform 2	Stricter rules for political advisors in the line ministries	X		
Reform 3	Strengthening policy development in the line ministries	X	X	
Reform 4	Streamlining policy evaluation	X		L
Reform 5	Creating an independent forecasting institution	X		
Reform 6	Process sharing and merging of agencies		X	M
Reform 7	Independent regulatory and supervisory agencies	X		
Reform 8	Service sharing by agencies	X		M
Reform 9	Introducing spending review	X		M
Reform 10	Financing e-government	X		M



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