

## *Summary*

The management of regional project funds –  
shared responsibility, reduced clarity?  
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## The management of regional project funds – shared responsibility, reduced clarity?

The National Audit Office has examined the management of the government grant for project activities within the regional growth policy. The grant is categorised under expenditure area 19, Regional growth, appropriation 1:1 Regional growth measures. The audit has focused on areas where research and studies have concluded that there is a risk of problems arising within decentralised systems. Thus, the audit covers the Government's steering and monitoring, as well as the dynamics of responsibility within the process for the disbursement of project funds.

### Audit background

The decentralisation of the regional growth responsibility has been ongoing in Sweden since the late 1990s. This means that the State has transferred a large part of the responsibility for the regional growth policy to the municipal level. Today, the State retains this responsibility in four of the nation's counties, by way of the county administrative boards. In other counties, the responsibility is on the county council/municipality or municipal associations.

The Government's long-term direction for the regional growth work was outlined in the National strategy for regional competitiveness, entrepreneurship and employment 2007–2013. The policy direction for regional growth work is apparent in the annual budget bills, appropriation directions regarding the activities of the County Administrative Boards and the Swedish Agency for Economic and Regional Growth, and in conditions decisions regarding municipal actors. The Government steers the overall direction of the project activities through the Ordinance on regional growth work and the Ordinance concerning support for project activities in regional growth policy. The Government also exerts control through the allocation of funds to various actors via the appropriation directions for appropriation 1:1 Regional growth measures within expenditure area 19 Regional growth. The regional development strategies contain visions, goals and long-term priorities for regional growth in each county.

The decentralisation of the regional growth responsibility is, among other things, motivated by the fact that it leads to a more effective implementation of regional growth policy. This is because regional and local actors are afforded greater room to adapt the policy to each county's specific requirements. An additional reason put forward by the Government is that it becomes easier for citizens and businesses to influence development in their own region. Growth Analysis has concluded that the transfer of responsibility from the State to the regional level on the one hand has resulted in measures being better adapted to specific regions, but on the other hand they have not been followed up with sufficient resources for analysis.



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Both within the research and within the system for government official reports, it has been noted that decentralisation and a shared responsibility can present problems within different areas. When a large number of actors are operating at different administrative levels, there is a risk of fragmentation of tasks and responsibilities. This may in turn lead to confusion, risks that funds are not used efficiently and diminished possibilities for accountability. It can also result in it becoming difficult to achieve an overall picture of the outcome of initiatives in relation to established goals, which means diminished possibilities for effective steering.

In the preliminary study that preceded the audit, the National Audit Office could observe that the government grant for project activities is managed within a highly decentralised system where there is a risk that the aforementioned problems of governance, responsibility and transparency will arise.

The Swedish Parliament and Government have determined that an efficient administration is essential in order to achieve sustainable growth. An efficient administration involves clarity in governance and organisation, knowledge of results in relation to goals, and the possibility of scrutiny. The aim of the audit is to, based on the described risk areas, analyse whether the Government's management of regional project funds has measured up to the Parliament's basic requirements for public administration. The following questions have guided the audit:

- Does the Government's steering and monitoring create conditions for the effective utilisation of the regional project funds?
- Does the management of regional project funds fulfil the Parliament's basic requirements for public administration with regard to responsibility, clarity and transparency?

Against this background, the National Audit Office performs the following operationalisations:

The management of regional project funds is to be perceived as clear. The reasons behind the steering are to be public knowledge.

The monitoring shall be linked to established goals and objectives, and be able to provide a picture of the extent to which regional projects funds contribute to the achievement of goals.

The management of regional project funds shall be transparent, which requires a clear division of responsibilities and tasks between different governmental agencies and levels of administration.

## **Audit results**

Agencies and researchers have pointed to various types of problems with governance, monitoring, responsibility and task allocation, as well as clarity and transparency, with regard to operations that are decentralised and where the responsibility is shared between different actors. The National Audit Office can observe that the management structure for the regional growth policy exhibits obvious traits of the problems highlighted in the research and government official reports. The area

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involves many actors at several levels of society, the division of responsibilities is unclear and the organisation is complex. The National Audit Office also notes that there are several opportunities for improvement within the current system, changes that could contribute to more effective management of the regional project funds.

*The Government's steering is somewhat unclear*

The National Audit Office finds that the Government's steering of the regional project activities is somewhat unclear. The municipal actors differently interpret the Government's direct steering via conditions decisions. For example, some of the actors perceive the conditions in the conditions decisions as assignments in addition to the regional growth responsibility. There are also different perceptions on whether funds from appropriation 1:1 can be used for assignments in conditions decisions. The regional actors also interpret those parts of the regulation relating to the financing of projects in various ways. Furthermore, there are few regional actors familiar with the Government's considerations regarding how the county-wise distribution of funds is carried out. The level of knowledge regarding what governs the distribution of funds between different actors within the same county is also low. A high level of familiarity with the reasons behind the distribution of funds implies a greater understanding of the Government's priorities and intentions, and can thus contribute to a more effective implementation of the regional growth policy.

The regional project activities are conducted in a complex environment of different policy documents, different regulations and different levels of administration. This negatively affects the precision of the steering. Furthermore, the combination of authorisation systems and the slight possibility of appropriations savings leads to less effective economising with given funds. In terms of coordination, 47 % of the respondents said there were problems when funds from appropriation 1:1 co-financed projects together with funds from the structural fund and/or funds from the Rural Development Programme.

*The monitoring provides little knowledge regarding results*

The National Audit Office finds that, from the Government's presentation of the regional project funds to the Parliament, it is difficult to see how the funds contribute to the goal for the regional growth policy. This relates to that part of the regional project funds that are not used for the co-financing of structural fund projects which are subject to structural fund regulatory requirements for monitoring and evaluation. In financial terms, it is about 50 per cent of the approximately SEK 800 million awarded annually in regional project activities. For that part of the funds subject to the structural fund regulatory requirements, it is difficult to separate effects of regional project funds from effects of structural fund resources. The Government has pointed out that the reported results from the regional structural fund programmes are uncertain and contain overestimates. This means that there is little basis for the assertions that the decentralisation of the regional growth responsibility leads to a more effective implementation of the regional growth policy. The monitoring carried out at the county level is not uniform and contains overestimates of results



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based on established indicators. This limits potential areas of use. We also note that the administration associated with monitoring contains elements of duplication of work and reporting. This has resulted in an additional workload, both in terms of the municipal actors reporting to the Swedish Agency for Economic and Regional Growth, and this Agency's reporting to the Government.

Overall, the National Audit Office can observe that the difficulties in monitoring the utilisation of funds result in the Government not being able to adhere to the Budget Act provisions which state that good economics should be observed in government activities and that results data must be reported in relation to established goals. This constitutes diminished possibilities for effective steering and accountability, and an increased cost for administration.

Furthermore, the National Audit Office notes that the monitoring of the regional project funds shows similarities with how the results are generally reported in the performance report to the Parliament. This issue has, among other things, been highlighted by an internal working group consisting of representatives from the Government Offices and the Riksdag (Parliament) Administration. The working group pointed out that the Government's performance report generally focuses more on initiatives and external factors than on operational performance.

*The division of responsibilities needs to be clarified*

The National Audit Office finds that the management of the regional project funds has serious deficiencies regarding how the funds are handled. These deficiencies relate to the division of responsibilities between the State and the municipal actors, as well as the possibility of scrutiny. The Swedish Agency for Economic and Regional Growth is responsible for the state appropriation that the municipal actors use for regional project support. This means that a municipal actor makes decisions that affect an appropriation for which a government agency has responsibility and accountability. The design of allowing a government agency to be responsible for funds that a non-governmental actor makes decisions about is difficult to reconcile with the Swedish system for management of state appropriations. The principle is that a government agency that receives an appropriation is also responsible for ensuring that the funds are used for the stated purposes.

Furthermore, the conditions are not in place for effective government control and scrutiny. The Swedish Agency for Economic and Regional Growth lacks formal support and the capacity to follow up and take action if state funds are not being used for the right purpose. Nor are these state funds, which in 2012 amounted to over SEK 500 million, subject to the state financial audit. Overall, this results in the risk of diminished control and risk management, and ultimately accountability.

These deficiencies are handled to some extent through framework agreements between the Swedish Agency for Economic and Regional Growth and the municipal actors, but the framework

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agreements have no legal status. The National Audit Office therefore considers it extremely doubtful that framework agreements can be seen as a viable solution.

#### *Opportunities for citizen influence vary*

As part of the audit, the National Audit Office has examined whether or not the ability of citizens to influence how regional project funds are used varies between different regions. The variations are partly dependent on disparities in the possibility to achieve accountability through elections, and partly dependent on the possibility of scrutiny. The decentralisation has occurred in different ways in different counties. The possibility to form municipal associations for cooperation at the county level has allowed for great flexibility in terms of organisation. This flexibility has meant considerable freedom in shaping their own organisation based on local and regional preferences. This great flexibility has led to increased organisational heterogeneity.

The National Audit Office finds that the organisational heterogeneity that characterises the management of the state regional project funds leads to different conditions in different regions with regard to citizens' opportunities to influence the utilisation of the regional project funds.

The National Audit Office takes no position on how the distribution of tasks within the regional growth work should look. This is a matter for Government and Parliament.

#### *The National Audit Office's overall conclusion*

The overall conclusion is that the Government's management of regional project funds does not meet the Parliament's basic requirements for public administration in terms of clarity and transparency. This risks undermining the fulfilment of the Parliament's goal of a public administration that contributes to sustainable growth.

While a report from Growth Analysis mentions, among other things, that the government initiatives are better adapted to specific regions, the audit reveals problems with the decision-making power over the regional project funds being distributed among many actors of different organisation types. The operations are characterised by complexity, heterogeneity and a lack of clarity in the division of responsibilities. The management of the regional project funds shows deficiencies in line with those risks which, within the research, are associated with complex multi-level systems and the extensive decentralisation of responsibility. Taken together, the lack of clarity within governance, monitoring, division of responsibilities, and the lack of supervision and control, results in there being a risk that the goal of the Budget Act in terms of good economics is not being achieved.



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## The National Audit Office's recommendations

### *Steering and monitoring*

Overall, the National Audit Office notes that the Government's steering and monitoring of the regional project funds is not designed in a way so that it meets the Parliament's basic requirements for public administration. To address the deficiencies, the National Audit Office recommends the Government to:

- Clarify the conditions decision's status in order to unify the various interpretations of whether funds from appropriation 1:1 may be used for assignments and reporting requirements.
- Clarify the extent to which the various municipal actors may co-finance projects with regional project funds based on Section 5 of the Ordinance concerning support for project activities in regional growth policy (2003:596).
- Clearly present the reasons for the specific allocation of funds for regional project activities to and within the country's counties.
- Increase the systematics and create clearer guidelines for a more comprehensive and coherent monitoring system.
- Clearly present the project funds' results to the Parliament in relation to their objectives.

The National Audit Office finds that the removed possibility of automatic appropriations savings causes an increased administrative burden within regional project funds. The benefit has been that financial control over the state budget has been strengthened. The regional projects' investments are affected however by external factors beyond the projects' control. Thus, a better management of project activity funds would benefit from the possibility of an automatic appropriations saving. The National Audit Office therefore considers that the Government should weigh the advantages against the disadvantages with regard to reintroducing an automatic appropriations saving within appropriation 1:1 Regional growth measures.

*The National Audit Office recommends the Swedish Agency for Economic and Regional Growth to:*

- Reconsider the need for reporting outside the support and case management system Nyps in order to reduce the administration.



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*Division of responsibilities within the administration*

Overall, the National Audit Office concludes that the management of regional project funds does not meet the Parliament's basic requirements in terms of responsibility, clarity and transparency. To address the deficiencies, the National Audit Office recommends the Government to:

- In Ordinance 2003:596 or otherwise, consider clarifying the division of responsibilities between the various actors in order to ensure good long-term economic control of the State's funds.
- Ensure that the state project funds that are decided on by non-governmental actors are subject to governmental supervision.

*Opportunities for citizen influence*

In the Government communication 2013/14:61, the Government announced an investigative study into democratic participation and influence. In light of the variations presented above regarding the opportunities for citizen influence, the National Audit Office recommends the Government to:

Consider the possibility of, in conjunction with the planned investigation, further examining the asymmetric decentralisation's democratic effects.

