

Expenditure or income deduction?

– *Government's handling of temporary employment funding*

Summary

SNAO has investigated the government's handling of temporary employment support to municipalities and county councils. The detailed aim of the audit was to investigate how this support was prepared and followed up at a central level and what information was passed on to parliament.

Employment support was introduced in 2002. The aim of the support was to maintain employment and bring forward planned new employment. The support was originally intended to be applied for one year, but has been successively extended from 2002 to 2006. Employment support is a so-called tax credit, and is entered on the income section of the budget. Tax crediting means that the support is added to the municipalities' tax account and as such is deducted from the amounts the municipality would have paid in tax. This mechanism is a deviation from regulations in the budget law regarding gross accounting figures. The main questions put by this audit were:

- Was government preparation for this support satisfactory?
- Did the government submit adequate information for the decision by parliament?
- Has the support been followed up and evaluated at a central level?

Observations and assessments

Preparation

According to SNAO, the government preparation of temporary employment support was not satisfactory. The main shortcomings were in prognoses and the circulation procedure. In the report, SNAO also states that the government's preparation was not characterized by any clear striving to achieve high efficiency in civil service activities.

The audit indicated that the prognoses which the government presented in its proposals for temporary employment support were not based on a detailed analysis of the consequences for public finances.

SNAO makes the same assessment of the prognoses submitted for the first extension of the support. The actual costs exceeded by a wide margin what was budgeted. In 2003 this support was almost SEK 2 billion more than estimated. SNAO is able to state that the government successively improved its prognoses. In a clarification of the governmental requirements for preparation, parliament expressed that a *written circulation procedure* should always be the normal method of gathering viewpoints when a proposed draft of legislation is being prepared. SNAO can, however, state that the government did not carry out a written circulation procedure. In addition, verbal preparation with authorities involved only covered limited parts of the government's proposal.

Information to parliament

According to SNAO, there are inadequacies in the government's information to parliament. Employment support was not drawn up in accordance with the budget law's *principle of gross accounting figures* and was not *financed* through priorities within the general ceiling for costs. SNAO states that the government has not given any *motives* for these important deviations in the proposal for temporary employment support to municipalities and county councils.

The report also comments on goals for the support, which SNAO considers to be unclear.

In its examination of government information to parliament on later occasions, SNAO has criticized shortcomings in the feedback of results, in the annual public accounts, and in prognoses for consecutive budget years. The report also comments on inadequacies in government information concerning the extent of the support before its extensions.

The shortcomings found by SNAO regarding the reporting of employment support in *annual public accounts* concern the accounts of total expenses in relation to the expense ceiling. If the employment support had been accounted for in gross figures in accordance with the budget law, savings amounting to SEK 2.2 billion would have been necessary to stay within the expense ceilings for 2002 and 2003. SNAO notes, however, that the real costs of the individual supports are easy to follow and that the government accounting in general was successively improved.

According to the budget law, the government must on at least two occasions during the current budget year report to parliament on *prognoses of actual figures* for public income and costs, and explain significant differences between budget figures and estimated actual figures. SNAO can state, however, that the government has not presented new prognoses with the frequency prescribed by law since the introduction of employment support. On those occasions when prognoses were presented, the government has not explained significant differences between budget figures and estimated actual figures.

Follow-up and evaluation

SNAO can state that no evaluation has been made of the temporary employment support and follow-up of the support has been limited. This in turn led to unclear and insufficient feedback of the results of the support to parliament.

According to the budget law, the government must report to parliament the results achieved in different activity areas. SNAO has examined how the government's feedback of these results has been expressed in budget proposals and spring proposals. SNAO states that this feedback to parliament is not sufficient to fulfill the requirements in the budget law on accounting of results. On a number of occasions, parliament has demanded that the government must follow-up and evaluate public activities. In the bill for temporary employment support, the government writes that the cost estimates are preliminary and that, especially with regard to new employment support, they suffer from some uncertainties. According to SNAO, for these reasons it would have been especially important to pay more attention to following up and evaluating temporary employment support.

Consequences of handling employment support

Employment support is designed as a tax credit and accounted as a deduction on the income side of the budget. This fact has influenced budget procedure and accounting for the support in a way that, according to SNAO, has negative consequences for budget discipline, for the possibility of controlling costs developments, and for transparency in the budget and annual public accounts. The expense ceiling has not operated as a restriction in handling employment support. If employment support had been accounted for in gross figures, a more financially austere treatment of the support would have been necessary. To avoid exceeding the expense ceiling, savings of SEK 2.2 billion between 2002 and 2003 would have been demanded. According to SNAO, continued expansion of tax credits of the same type as employment support will, in the long run, undermine the significance of the expense ceiling for public finances. SNAO states that the government has not supplied parliament with information that makes possible an overall consideration of the needs for resources for employment support in comparison with alternative cost commitments.

According to SNAO, this may be connected with poor incentives as a result of the government's prognoses not being limited by a framework for the financing of employment support, but only constituting an estimate of its size.

In the government report on the relationship of total costs to the expense ceiling, it is not possible to see directly how large a volume the costs limited by the saving would have been if the employment support, and other deductions or income of the same type, had been accounted for in gross figures in accordance with the budget law.

As a result, it is difficult to see whether the costs would have stayed within the previously set budget limits, assuming that the fundamental principles of the reformed budget process had been followed.

The recommendations of SNAO

SNAO's recommendations combine the government's need for freedom of action in terms of the possibility of being able to choose different budget technical solutions with the requirements of austerity in the budget process. The recommendations apply to income deductions of the same type as employment support.

Adjustment of expense ceiling

SNAO wishes to point out to the government the need for initiatives for change, which means that clear demands are placed on technical adjustments of the expense ceiling when proposals are made which include net figure accounting.

According to SNAO, such a requirement should have the following components when it relates to income deductions of the same type as employment support: if the government puts forward a proposal that involves net figure budgeting of an expense liability, it should propose to parliament a reduction of the expense ceiling by an amount equivalent to the net budgeted amount.

The proposal for such a technical adjustment must be submitted in the bill containing the draft for net budgeting.

Improved cost control

SNAO also wishes to draw the attention of parliament to the need for measures aimed at improving cost control for income deductions of the same type as employment support.

According to SNAO, as far as prioritizing and financing such expense liabilities are concerned, the government should propose changes which mean that these liabilities are treated on an equal basis with grants on the expense side of the budget. This should take place by decisions on individual liabilities, including decisions on a framework for costs. Any changes in the calculation of costs should be followed by a proposal for a new cost framework.