



Summary:

Audit of the Central Government Annual Report for 2015

The Swedish National Audit Office has audited the *Central Government Annual Report for 2015*. The annual report is an extensive document that under the provisions of the Budget Act (2011:203) must include a follow-up of the fiscal policy targets, the outcome of all appropriations and income headings and a balance sheet and income statement.

Audit background

In this report the Swedish National Audit Office indicates a number of areas where the Central Government Annual Report can be improved. The annual report is an important communication from the Government that helps the Riksdag exercise its financial and parliamentary control as described in the Instrument of Government. The Swedish NAO therefore considers it important that the Government continues to improve reporting to the Riksdag and takes into consideration the findings and recommendations presented in this audit report.

Audit findings

The role of the expenditure ceiling as support for the surplus target has been weakened

The Swedish NAO considers that the explanation by the Government of the undershooting of the surplus target by referring to the business cycle and the previous Government's economic policy is on the simple side. An important reason for net lending not reaching the surplus target is that public expenditure has increased rapidly and considerably more than was assumed a few years ago, not least due to how volume-related expenditure has developed.

The Government writes in the annual report that the idea is that the level of the expenditure ceiling must support fulfilment of the surplus target. Due to the development of central government expenditure and the approved increase in the expenditure ceiling by SEK 33 billion, the overall findings of the Swedish NAO lead to the conclusion that the role of the expenditure ceiling as a support for the surplus target has been seriously weakened. The formulations in the annual report do not give a fair description of the link between the fiscal policy targets in the present situation.

The decision to bring forward expenditure is in practice an amendment to the expenditure ceiling

The Swedish NAO considers that the Government's decision to bring forward expenditure from 2016 to 2015 is in practice equivalent to raising the expenditure ceiling in 2016. Bearing in mind confidence in the fiscal policy framework, it could be discussed whether it is appropriate for the Government to decide to move expenditure between budget years without the approval of the Riksdag.

In this context the Swedish NAO wishes to draw attention to the financing principles described in the fiscal policy framework. In work on the budget, the main principle for central government expenditure is that spending increases are to be paid for by spending cuts. Deficient prioritisation of expenditure risks making fulfilment of the surplus target impossible or enforcing a rising trend in the total level of taxation.

The change in net lending should be reported more clearly

The budget year 2015 stood out as special in various ways. The Budget Bill for 2015 that the new Government presented in October 2014 was defeated in the Riksdag. Instead the budget was approved later in the autumn after additions and amendments by the Riksdag Committee on Finance. A large part of the fiscal policy originally proposed by the Government in the Budget Bill was approved instead by the Riksdag, under the provisions of the December Agreement, in the 2015 Spring Amending Budget. Later in the year there was also an Autumn Amending Budget and an Extra Amending Budget. In addition, in December 2015 the Government decided to bring forward expenditure from 2016 to 2015.

The Swedish NAO would have preferred to see a description of public finances that contained a more detailed account of what had taken place between the budget and the outcome, similar to the presentation of the central government budget's revenue and expenditure. Such a presentation would contribute to a clearer follow-up of fiscal policy, which is particularly important in the cases when significant parts of discretionary policy have been implemented via amending budgets and other types of decision. In the report the Swedish NAO provides an outline of how such reporting could be presented.

Moreover, the annual report should show more clearly the factors and amounts that led to net lending in 2015 being so much stronger than budgeted. To the extent such factors have been of a non-recurrent nature, it should be made clear whether they have been disregarded when calculating the structural budget balance.

The Swedish National Audit Office's recommendations

- In response to this audit, in its communication to the Riksdag the Government should explain whether and how the expenditure ceiling can still be seen as a support to the surplus target due to the development of central government expenditure and the increase in the expenditure ceiling of SEK 33 billion.
- In future annual reports the Government should explain in more detail the underlying factors behind a development of net lending that deviates from the adopted budget.
- In future annual reports the Government should describe the revenues and expenditure of a non-recurrent nature that have been disregarded when calculating the structural budget balance.