

CES/AC.68/37
25 March 1997

Original: English

**STATISTICAL COMMISSION and
ECONOMIC COMMISSION FOR EUROPE**

**COMMISSION OF THE EUROPEAN
COMMUNITIES (EUROSTAT)**

CONFERENCE OF EUROPEAN STATISTICIANS

**ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT**

Joint UNECE/Eurostat/OECD
Meeting on National Accounts
(Paris, 3-6 June 1997)

Item 1 of the provisional agenda

GOVERNMENT SECTOR IN SWEDISH NATIONAL ACCOUNTS

Submitted by the Swedish Government Budget and National Accounts Commission¹

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1. Background

The Minister of Finance, the present Prime Minister of Sweden, announced in the Budget Bill to the Swedish Parliament in January 1995:

" It is of outmost importance that the Government should base its economic policy on information of the highest possible quality.

At present, statistics, estimates and predictions are made by a number of agencies and as a rule based on the agency's internal accounts, statistics and reports produced for the agency's own interests and needs.

One agency may use models, definitions and methods for the analysis of internal problems which differ considerably from those of other agencies. This can of course lead to difficulties when data and conclusions are to be aggregated up to the whole governmental sector.

The Government therefore decides to appoint a commissioner with the task of investigating dissimilarities between different sets of information concerning the governmental sector.

In the first stage, the commissioner ought to produce a survey of different products, and in a second stage advise the Government about changes in concepts, methods and ways of production which he finds desirable."

The background to that announcement and the reason why the Minister of Finance made the statement was the severe crises that struck the Swedish economy during the years 1991-1994.

Unemployment rates in Sweden had for long been one of the lowest in the world. In less than one year the rates increased from 2% to 12%. Traditionally, the Swedish Government has succeeded in balancing the budget. In the fiscal year 1993/94 the budget deficit amounted to 200 billion kronor a year (about 30 billion US dollars or around 3,500 dollars per capita).

The economic information which the Government and the Parliament received from their agencies differed in important aspects. The Government budget outcome gave one view and the National Accounts another view, see figure 1 below.

Predictions of the outcome of the budget told the Minister of Finance, when the first half of the fiscal year was almost coming to an end, that the 1994/95 deficit would continue to be at the level of 1993/94. However, the final outcome of the budget revealed that the deficit was about 50 billion kronor less than predicted, and if it is taken into account that large extraordinary items were posted in the last part of the fiscal year 1994/95, the "ordinary" deficit can be estimated even lower than the final outcome.

Following a decision taken by the cabinet in June 1995, a commission on Improved State Budget and National Accounts was established on 1 July 1995. In this paper we describe some of the subjects covered by our Commission. We present our views on how to improve the total quality of the Government Budget and National Accounts.

To better understand the Swedish form of government, please see the overview in appendix 1.

2. Summary

2.1. The Swedish Government Budget and National Accounts Commission

As a first stage, the Commission presented a report to the Minister of Finance in March 1996. We analyzed the different problems within the State Budget and National Accounts. Recommendations were made to the Cabinet about further investigations. In the second stage, the Ministry of Finance, on behalf of the Cabinet, pointed out the following three areas for the commission: Concepts and principles, (statistical) products and (statistical) producers, quality control and direct measurement.

2.2. Different concepts and principles

Since the fiscal year 1993/94 a new accounting model for Swedish central government agencies has been implemented. The new model is based on generally accepted accounting principles for the private sector. Minor adjustments have been made to the specific rules governing the fiscal budget. No new methods have been developed to meet the needs of the System of National Accounts or Government Finance Statistics. Statistics Sweden and the National Bank were not even members of the expert group that developed the new accounting model for the Government.

Where economic accounting principles differ from the principles of the new accounting model the latter is followed. The government accounting model was never harmonized with the new 1993 System of National Accounts (SNA 93/ESA 95). There is no direct linkage between the micro accounting and the macro accounting. The translation from the micro account code to the economic accounting code is not simple. Another type of problem is the different principles applied, depending on when the flows are accounted e.g. payments, unaccrued expenditures and accrued expenditures. Our Commission has started to evaluate if or if not the new accounting model, after harmonization with SNA/ESA, is suitable as a micro database structure for the National Accounts. A micro database will make it possible to disaggregate the macro accounts to the micro (agency) level of the economy.

A short description of the new Chart of Accounts for Swedish Government Agencies, the cornerstone of the new accounting model, is presented in appendix 2.

2.3. Large and irregular discrepancies

National Accounts, government finance statistics and government accounts are compiled by Statistics Sweden, the Swedish National Audit Office, the National Bank, the National Debt Office, the Ministry of Finance, the National Institute for Economic Research and other central government organizations. The coordination of all these organizations calls for a common system and a clear role for one institution as coordinator and supervisor. Another possibility is to pool all these producers into one single consolidated organization.

The number of statistical products is very large. The discrepancies between the different sets of information are large and irregular. It is not possible to reconcile the different products *ex ante* and or even *ex post*. There is great need for the establishment of a new set of products with clear links between the different sets of information. Only in this way will it be possible to reconcile the different products. We will also check the quality of the preliminary National Accounts following the methods presented by OECD for seven countries. We presume that we will find discrepancies between preliminary and final National Accounts as in other countries.

2.4. Poor quality control and absence of external auditing

National Accountants as well as compilers inside international organizations normally have to accept "the face value" of the different statements they get as input. The time for compilation is quite often very short. The necessary competence and resources for quality control and external auditing are most often lacking. National Accounts for the government sector are normally compiled from administrative government accounts and databases. These datasets are structured and based on government accounting principles. These principles, at least in Sweden, differ from the principles applied in economic accounting. The normal method for the national accountant is to adjust and reconcile different datasets. If discrepancies are small, this is often taken as an indicator that the quality is high.

Another method for quality control based on statistical sampling methods is presented in this paper. We have found that this method is administratively feasible and it opens new possibilities for quality control through direct measurement. Our preliminary results show that it is possible to obtain correct figures on consumption, capital formation and transfers etc. directly from the "verification". The statistical methods can also be used by external auditors of National Accounts. While no such audit has been performed in Sweden so far, we have been informed that there is an interest in this area. Furthermore, the Parliamentary auditors in Sweden have raised the question of an external audit of the consolidated central government account. However, there is no manual for external auditing of National Accounts.

3. The government sector

We mainly discuss the problems connected with central Government and the social security sector. However, as we have a unified tax administration system, many of the questions we raise also are relevant to the local government. There is no "state" level in the Swedish government system as Sweden is one central State and not a federation of states.

The English term "government" is used in this publication with the same meaning as in the publication Government Finance Statistics (GFS) Manual published by the International Monetary Fund (IMF). The new GFS Manual, will be harmonized with the new System of National Accounts (1993 SNA).

Today the central government sector in Sweden is mainly defined by the government accounting organization and the government accounting system. In

other words, the government sector is defined by administrative and budgetary principles.

On the other hand, the SNA 93/ESA 95 gives arguments for the definition of the government sector by macroeconomic principles. This is an area of investigation for our Commission. In Sweden the government sector has different coverage (borderlines) in different products. As there are discrepancies in the coverage of the government sector between different products, reconciliation is difficult or even impossible.

4. Large and irregular discrepancies

The compilation of GFS in Sweden is distributed among a number of government agencies. These products follow different concepts, principles etc. It is not possible to reconcile all the accounts and forecasts that are produced today. In our investigation we shall review all products connected to Government Finance.

During our first investigation phase we studied the revenues, expenditures and balances in many different products during the last 25 years. We found that during the last five years there had been large and irregular discrepancies between the different accounting systems.

It was not possible to explain or predict these discrepancies by simple calculation methods, as had been presumed. The total differences are large at both micro and macro level in government. There are a number of explanations to why this situation has developed. These large and irregular discrepancies are not acceptable for economic analysts, decision-takers and policy-makers.

5. The need for a multi-purpose system

The SNA/ESA is a multi-purpose system for economic analysis, decision-taking and policy-making. However, neither the old nor the new SNA is discussed or even known in detail by most analysts, decision-takers or policy-makers. The last Swedish textbook on National Accounts was written more than twenty-five years ago. Research and higher education at Swedish universities in National Accounts is very limited.

The new 1993 SNA presents a comprehensive, consistent and flexible set of macroeconomic accounts intended to meet the needs of the users. Also, the new GFS Manual from IMF is based on the same concept. We know that OECD and EU will also follow the same concept.

On the other hand, the various products and accounting systems we have studied in Sweden are based on different concepts. The budget is based on a combination of cash, expenditure and accrual principles. This mixture of principles is regulated in the new 1997 Budget Law. The National Accounts in Sweden still mainly follow the principles of the old 1968 SNA. The agencies' annual accounts follow traditional business accounting principles. Some producers have invented their own concepts mainly based on historical, budgetary and administrative principles. Four different sets of principles are followed at the same time!

The SNA can be implemented in two different ways. The first alternative is to only modify the different products made by Statistics Sweden, This is already planned and will be implemented at the end of 1998 according to information from Statistics Sweden.

The other alternative is to scrutinize all products and producers in Sweden today. As we have shown earlier, there are a large number of institutions working in the area of government finance statistics. To adapt all their products and change all their production processes to the new SNA/ESA system will be a great task. This second alternative of total implementation will be done after 1998.

6. Many products and producers

A large number of products and producers have already been identified by our Commission for further study (see appendix 3):

We will describe all these products. Among other things the description will show: sources of primary data, concepts, principles, systems, costs etc. We will also compare the products with the requirements of 1993 SNA.

The basic flow of information starts at the agency level. Compilations of data sets are made at the National Audit Office (RRV), Statistics Sweden (SCB), the National Institute of Economic Research (KI), the National Bank (RB), the National Debt Office (RGK), the Ministry of Finance (MoF), the National Tax Board (RSV), the National Social Insurance Board (RFV) and others (O). These abbreviations are used in appendix 3.

The Parliamentary Auditors have recently examined the development of the Consolidated Annual Accounts of the Swedish Government. The conclusion was that the main user, in the form of the Parliament, has very little practical use of the product. The Annual Accounts are not yet properly designed for financial analysing and control or decision-taking and policy-making.

A short description of different parts of the Consolidated Annual Accounts for the Government is presented in appendix 4.

7. Direct measurement, quality control and audits

In Sweden, GFS and SNA information is compiled from different administrative data sets. This is an easy and smooth way of compiling aggregates. On the other hand quality control is cumbersome in this system.

We have started to study the quality aspects of accounting. Our method of direct measurement is a statistical sample method. The focus for our studies is the economic transactions as such. The coding is done by experts under our supervision.

The method will, in the first stage, be used for quality control of the accounts. At a later stage we will discuss the possibility of also using sampling methods in the compiling process.

We have also found that in Sweden there is no regular external annual quality control of the National Accounts or the Consolidated Government Accounts.

There is a need for external auditing of different sorts of macro accounts. For many years the audit report of the annual micro accounts has indicated whether they give a true and fair view of the agency. This is not the case when it comes to economic accounting. However, that may be changed within the European Union. This question should be put on the research agenda.

Our first results of the direct measuring method show that the figures in the Government and National Accounts may be wrongly estimated. More details about this first test of the direct measurement method are presented in the following pages and appendix 5.

8. More about Techniques - Concepts - Methods - Results

An outpayment (expenditure) by an agency to someone who has delivered goods or services to the agency is verified by an "invoice". In this context we therefore use the concept "verification".

Through financial auditing, "verifications" are checked and therefore true in the meaning that the amount of the "verification" reflects an expenditure and an outpayment made by the agency to the deliverer.

In National Accounts, economic activities are generally classified as "consumption", "capital formation", "transfers" or as "financial transactions", just to give a few examples here.

One way, and the very common way, to estimate the different parts of classification in National Accounts is by using current accounts already produced by the economic subjects primarily for purely internal needs of economic information. Therefore the quality of National Accounts depends on the quality of the integration process of data from the level of agency accounting to the level of accounting for the nation as a whole.

Even if the amount of one specific "verification" is "true" and "exact" because of annual audits, the classification as "consumption", "capital formation", "transfers" or "financing" is dependent on the accuracy with which the agencies' accounting can be transferred, aggregated and integrated into the National Accounts.

In order to investigate the quality of the process in use in our country, the Commission intends to describe the situation of the governmental sector by a set of pilot studies in cooperation with the said agencies. Those pilot studies are going to be done from now on for about one year.

To illustrate the commissions approach we will present the direct measuring method in detail during the meeting in Paris in June 1997. We have already completed one case study in a first stage of our work. The investigation has been done in cooperation with the accounting expertise¹ within the Gothenburg University. Our preliminary results show that the

indirect measuring method indicates that the consumption is more than 90% of the turnover. Our direct measuring method indicate that the consumption by Gothenburg University is around 80%. The results indicate that investments (fixed capital formation) at Gothenburg University are remarkably higher than those estimated in official national accounts.

Question: Is this result just a question of measuring techniques? Which technique is then the appropriate one for economic analyses, policy-making and decision-taking?

Preliminary standpoint: The Commission must scrutinize the issue in greater detail both concerning the number of agencies and sample size.

Similar studies are planned with:

1. National Road Administration - internal accounts based on the concept of "costs" (full accrual);
2. National Maritime Administration - to a large extent working as a public utility;
3. National Social Insurance Board - which handles important "transfer payment" from the government sector to the private sector (households);
4. National Government Salaries and Pensions Board - which administrate wages and pensions to those employed in or retired from government.

Appendix 1: Note on the Swedish form of government

Sweden's government administration consists of the Cabinet Office and the independent government agencies. Today, the Cabinet Office is divided into ministries, which have a large number of agencies under them. A comparison of the size of the workforces employed by the ministries and the agencies shows the ministries to be small and the agencies large.

From an international view, the unique nature of the Swedish Government administration is partly the relatively small number of people employed in the ministries compared with the size of government agency workforces, and partly the independence government agencies enjoy.

The term "independence" means that, within the limits of certain systems of legal regulations and the financial frameworks of their appropriations, the agencies are empowered to make their own decisions, free from any government influence. The Government can only issue instructions or orders to the agencies in the form of decisions taken at a Cabinet meeting.

To give the Riksdag insight into the Government's relations with the agencies, a record must be kept of all decisions taken at Cabinet meetings. If the Government fails to give its agencies directives that are found suitable by a majority in the Riksdag, the Government may be brought down by a vote of no confidence.

Sweden's Constitution does not allow any form of ministerial rule. Since the Government is responsible for the actions taken by the government agencies, it is natural, not to say self-evident, that the Government should monitor, check and correct its agencies. The local level is in many respects independent of the central level.

This note on the Swedish form of government gives a background of the diverse organization of government finance statistics in Sweden. Sweden has been a member of the European Union since 1 January 1995. Among other things, Statistics Sweden will implement the new SNA/ESA systems of the end of 1998.

Appendix 2: Chart of accounts for Swedish Government Agencies

Based on the principle that the Chart of Accounts is to have a structure reflecting the structure of the financial statement, the following order of account classes is recommended:

1. Assets
2. Liabilities and capital
3. Operational revenue
- 4-6. Operational costs
7. Collection and transfers
8. Revenue and expense from interest and capital, extraordinary revenue and expense
9. Internal costs and revenue

The annual financial statements for an Swedish agency consist of the following documents:

- Balance Sheet
- Report on settlement with the government
- Cash flow statement
- Income statement

There is also a mandatory reporting of expenditure by economic categories to the National Audit Office. This latter economic information is the main input for the National Accounts (Central Government).

Appendix 3: Products and producers

1. Primary products

- 1.1 Budget, MoF
- 1.2 Budget forecasts, MoF
- 1.3 Budget outcome, RRV
- 1.4 Annual statement, RRV/MoF
- 1.5 Total revenue and expenditure by economic classification, RRV
- 1.6 National budget, MoF
- 1.7 National Accounts forecasts, KI
- 1.8 National Accounts, SCB

2. Secondary products

- 2.1 Revenue calculations, MoF/RRV
- 2.2 Informal revenue calculations, MoF/RRV
- 2.3 Tax statistics, RRV
- 2.4 Budget outcome by economic classification, RRV
- 2.5 Budget outcome (quarterly outcome, budget structure), RRV
- 2.6 Budget outcome (statistics), RRV
- 2.7 Budget outcome (quarterly outcome, some transfers), RRV
- 2.8 Salaries (breakdown by month), RRV
- 2.9 Calculation of prices and salaries, MoF/RRV
- 2.10 Taxes (monthly report), RSV
- 2.11 Employers' contribution for social security purposes, RSV
- 2.12 Preliminary taxes (accrued), RSV
- 2.13 Payment of taxes to local government from central Government, RSV
- 2.14 Collected, repaid and accrued value added tax, RSV
- 2.15 Value of import and export within the European Union, RSV
- 2.16 Information about some tax payments, RSV
- 2.17 Information about the social security outpayments and inpayments, RSV
- 2.18 Business cycle, KI
- 2.19 Basis for analysis of National Accounts forecasts, KI

3. Other products

- 3.1 Government net borrowing by type of instrument, RB
- 3.2 Government net borrowing by category of investor, RB
- 3.3 National Pension Insurance Fund by type of investment, RB
- 3.4 National Pension Insurance Fund by category of borrower, RB
- 3.5 Government net borrowing need and financing (outcome), RGK
- 3.6 Government net borrowing need and financing (forecast), RGK
- 3.7 Convergence programme (EMU), MoF
- 3.8 Public sector, (O)

4. Reporting to international organizations

- 4.1 United Nations (UN), SCB
- 4.2 International Monetary Fund (IMF), RB
- 4.3 Organisation for Economic Co-operation and Development (OECD), SCB
- 4.4 European Union (EU), SCB

List of abbreviations

KI	=	National Institute of Economic Research
MoF	=	Ministry of Finance
O	=	Others
RB	=	National Bank
RFV	=	National Social Insurance Board
RGK	=	National Debt Office
RRV	=	National Audit Office
RSV	=	National Tax Board
SCB	=	Statistics Sweden

Appendix 4: Consolidated Annual Accounts for the Government

In many countries there is no consolidated annual account for the government sector. This means that it is not possible to get a true and fair view of the Government as a group.

Budget accounts

As in most countries, a number of different budget and appropriations accounts are prepared. The most common follow the budget structure.

But since the Second World War, other structures are also used. One follows a modified SNA-coding for economic type. Another follows the COFOG classification of government functions. However, the quality of these products is doubtful.

Cash flow statement

International accounting standards (ISO) as well as the IMF have three basic statements for application by governments. The three statements are cash the flow statement, the income statement (operation account) and the balance sheet.

Also, the rating institutions have an interest in the cash flows. The reason is of course that they want to measure the risk incurred by investment in government loans. This is an area where we have found good possibilities to improve the system. The best way is to obtain true and fair information directly from the government payment system.

Income statement

The old budget accounting method was strictly on a cash basis. New accounting models have been implemented. These methods follow the accrual basis.

A classical problem is the measurement of the volume of taxes. The budget law prescribes the cash principle. The accrual principle is more complex if you want to follow the full accrual principle on both the revenue and the expenditure sides.

Balance sheet

In Sweden we started to compile a consolidated balance sheet for the central government sector just a few years ago. The result can be found in the Annual Accounts 1993/94. A number of valuation problems and consolidation problems are yet to be solved. A major problem is to define the government sector and the value of all assets and liabilities (historic or economic value).

Appendix 5: Indirect and direct measurement

The indirect measurement in the National Accounts for the government sector follow the flow of information (compensation of employees):

0. Payroll system
1. "The verification in the general ledger"
2. Agency specific Chart of Accounts
3. Government agency Chart of Accounts
4. General chart of expenditure accounts by economic categories
5. The Swedish Chart of National Accounts
6. Reporting to international organizations

The direct measurement follows the flow of information below (compensation to the employees):

0. The "verification"
1. The Swedish Chart of National Accounts

Appendix 6: Basic concepts

Expenditures, cost and outpayments

"Expenditure is a type of economic event through which value of a financial nature leaves the agency, with the exception of those cases where the value leaving represents compensation for another financial resource.

Cost is used with two different meanings. In micro accounting literature, cost is defined as a "periodic expenditure". In practical accounting (according to the new Swedish accounting model), the term cost is nowadays used in the sense of the "value of acquired or consumed resources" without the aspect of periodization." Source: Accounting Model for Swedish Government Agencies, National Audit Office, Stockholm 1993.

"Many Governments operate on a cash basis of accounting (record cash receipts and expenses as they are received or disbursed). Bills are accounted for when they are paid" (outpayments). Source: Financial, Accounting, Reporting and Auditing Handbook, The World Bank 1995.

Concepts used in connection with direct measuring

"Accounts payable" handles all "verifications" of expenditures and outpayments at the Gothenburg University. The following basic preliminary concepts have been used in this connection.

Expenditures and outpayments

A. For consumption

The part of the expenditure and the outpayment in the verification which corresponds to a service or product which will be consumed during the current fiscal year (fy).

B. For capital formation (investments)

B1. For capital formation 1:

The part of the expenditure and the outpayment in the verification which corresponds to a service or product that will be a part of capital formation (investments) and will be used the following fiscal year (fy+1).

B2. For capital formation 2:

The part of the expenditure and the outpayment in the verification which corresponds to a service or product that will be a part of capital formation (investments) and will be used the second fiscal year ahead (fy+2).

B3. For capital formation 3:

The part of the expenditure and the outpayment in the verification which corresponds to a service or product that will be a part of capital formation (investments) and will be used the third fiscal year ahead (fy+3).

B4. For capital formation 4:

The part of the expenditure and the outpayment in the verification which corresponds to a service or product which will be a part of capital formation (investments) and will be used in the fourth fiscal year ahead or even later (fy+4).

C. For transfer

The part of the expenditure and the outpayment in the verification which does not correspond to any direct service or product.

D. For financing

The part of the expenditure and the outpayment in the verification which corresponds to repayments of instalments and interests.

ENDNOTES

- 1 The Chief of accounting and the Deputy Chief of Accounting within the University of Gothenburg.