Official Norwegian Report NOU 2015: 14 Summary

Central government budgeting and accounting principles

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Report from an expert commission appointed by the Norwegian Government to the Ministry of Finance, delivered on 1 December 2015.

Translation from Norwegian. For information only.

Chapter 1
Appointment, terms of reference and composition of the Committee

1.1 Better basis for decision-making, better control and management

Central government control is complex. It is often challenging to formulate the objectives pursued through central government activities. Outcomes are affected by many forces, not all of which can be controlled. Many levels and stakeholders are required to interact, often with differing views as to the best way forward. Long-term and short-term considerations need to be balanced. Consideration for individual elements needs to be weighed against consideration for a sound overall outcome. Decisions are made under uncertainty, and one needs to decide how and by whom such uncertainty shall be handled. In addition to the inherent uncertainty, decisions are often made with limited information concerning objectives, alternatives and effects. Decision-making authority and informational needs interact with organisation and affiliation.

The terms of reference call upon the Committee to assess changes to the budget system and requirements as to the *basis for decision-making*. The Committee partly considers changes to the form of the resolutions of the Storting, partly changes to the information from the Government to the Storting, and partly changes to requirements internally within central government.

Control at the top level of the Norwegian central government control system; the Storting, faces few limits. Even the Constitution and international treaties can be amended in the longer run. This means much freedom, as well as much responsibility. Apart from voters, there is little or no formal monitoring of the resolutions of the Storting, and little or no scope for intervention if such resolutions turn out to be misguided. This is a key difference between the Storting and all other decision-makers in Norwegian society – whether in the private or the public sector. This, together with the complexity, has major implications for the formulation of decision-making rules and decision-making documentation requirements at the central government level.

The recommendations of the Committee are based on the fundamental perspective that decision-makers must, within the defined framework, have the freedom to make those decisions that are deemed to be the most appropriate at any given time. It is of decisive importance that decision makers have adequate information about problems, objectives, alternatives and consequences – prior to actually making the decisions. The main message of the Committee is that decision-making information and plans prepared by the central government administration and submitted to the Storting should be expanded and improved, whilst the decision-making system – the budget system – should not be changed towards additional restrictions or more complex systems. The Committee believes that a better basis for decision-making will result in better control.

1.2 Terms of reference

The Committee was appointed by Royal Decree of 10 October 2014, with the following terms of reference:

«The following is stipulated in the Government's platform of 7 October 2013:

«The Government will:

Appoint a new public committee to assess multi-year budgets in selected areas and a clearer distinction between investments and operations in the budget.»

Government absorbs a considerable portion of society's resources. There is a need, within a unified budget process in which different initiatives are evaluated against each other, for a robust basis for decision-making and predictable funding of investments, thus enabling investments to be implemented in an efficient manner and to deliver the expected effects.

Budget and accounting information based on the accruals principle provides, generally speaking, more information on resource use than does corresponding information based on the cash principle. However, government is not a business in which investments are made on the basis of anticipated cash repayments in a market. Besides, central government is such a large participant that the sum total of its decisions affects overall demand in the economy. Government also needs to take the long-term sustainability of its finances into account.

There has nonetheless been a gradual development in the cash-based budgets of central government over the last few decades, with distinct accrual elements having been added to the budget system. Annual provisions for future waivers of student loans have, for example, been expanded. The budgeting of central government interest revenues from the Norwegian State Housing Bank, the Norwegian Public Service Pension Fund and the Norwegian State Educational Loan Fund has been based on accrued interest as from 2010.

A multi-year perspective is needed to facilitate the efficient selection and implementation of investments and other long-term projects. Although the fiscal budget is based on the single-year principle, central government may assume liabilities that shall not be met until after the end of the fiscal year, if the Storting has specifically consented thereto. Such authorisations may differ in scope and scale, depending on the relevant need. Despite this, it may nonetheless be challenging to achieve efficient progress.

The Ministry of Finance has developed joint central government accounting standards («SRS») based on the accruals principle. SRS have been introduced on a voluntary basis for central government entities in their entity accounts, as supplementary information in addition to the cash accounts that are to be reported to the central government accounts.

A committee shall, against this background, be appointed to assess the need for multi-year budgets in selected areas and a clearer distinction between investments and operations in the budget. The recommendations of such committee shall provide an improved basis for decision-making for central government prioritisations and promote the efficient use of government funds.

The Committee shall assess:

a. the appropriateness of multi-year budgets and accruals on a general basis. The Committee shall thereafter take a closer look at selected sectors in which multi-year budgets and new accrual elements are of particular relevance. This shall be done within the scope of central government cash-based budgets/accounts and the rules governing annual budget resolutions.
b. whether there can, in connection with the fiscal budget, be prepared specifications that show, better than at present, the estimated future costs or benefits of investments in fixed assets and other initiatives, thus potentially providing a better basis for assessing which priority these should be accorded in the budget process. It shall be assumed that such specifications, if any, would be additional to the current classification of the budget, and not in replacement thereof.
c. whether the documents submitted to the Storting should be required to include a more comprehensive discussion of the overall costs and benefits of reforms. The Committee, should, *inter alia*, consider criteria for when an expanded discussion shall be required and how analyses and estimates of multi-year implications of initiatives can be prepared, including what is an appropriate time horizon. The alternative use of the resources should be considered in this context.
d. the progress of completed investment projects in different sectors. The Committee is requested to examine whether any inefficient progress of investment projects is caused by inadequate budget authorisations, inadequate information concerning the overall

budgetary implications of adopted initiatives or other circumstances.

If the Committee finds that authorisations, informational basis or other circumstances are not adequately catered for, the Committee is requested to propose potential improvements, including multi-year budgets. Any multi-year budgets shall be considered from various angles, such as degree of multi-year restrictions, level of detail and scope. It is requested that any advantages relating to increased predictability be weighed against the disadvantages of additional fiscal budget restrictions and reduced scope for reordering priorities in the annual budget process.

e. experience with the use of entity accrual accounts in conformity with SRS, including whether the highlighting of costs provides an improved basis for decision-making in ministries and other central government entities. The Committee shall consider mandatory use of SRS at the entity level. The Committee shall also consider mandatory reporting of accrual information alongside cash-based information to the central government accounts.

The Committee should in its efforts draw on international practice and experience from comparable countries, previous work in this field, as well as assessments from international organisations such as the OECD and the IMF. The Committee shall examine whether the introduction of new accounting standards for the EU (EPSAS) may have an impact on public sector budgeting and accounting in Norway as well. The Committee shall take into account that the Government has initiated a preparatory effort to establish a designated road development entity and that the Instructions for Official Studies and Reports are under review.

The Committee is requested to assess financial and administrative implications of its proposals.

The Committee should adopt an open approach in its work. This may be achieved by holding seminars and meetings to which representatives of relevant ministries, other public sector entities and the two sides of industry can be invited, together with researchers and others.

The Committee is requested to submit a joint report by the end of November 2015.»

1.3 The work and composition of the Committee

The composition of the Committee has been as follows:

Øystein Børmer, Director General,
Norwegian Government Agency for Financial Management, Chairperson
Stein Berntsen, President consulting,
Dovre Group
Tore Eriksen, Special Adviser,
Ministry of Finance
Harald Brandsås, Technical Director,
Norwegian Institute of Public Accountants
Anna Rømo, Director,
Statistics Norway
Kristina Lundqvist, Head of Department,
Swedish National Financial Management Authority
Kåre P. Hagen, Professor Emeritus,
Norwegian School of Economics
Marianne Mancini, Chief Financial Officer,
Diakonhjemmet
Hanne Gaaserød, Director,
South-Eastern Norway Regional Health Authority

The Secretariat of the Committee has comprised the following individuals:

Frode Karlsen, Deputy Director General,
Ministry of Finance, Head of the Secretariat
Siril Kvam, Adviser,
Ministry of Finance
Johan Nitter-Hauge, Senior Adviser,
Ministry of Finance

Torstein Sørbotten, Senior State Account Adviser,
Ministry of Finance
Per Arvid Borøy, Senior Adviser,
Ministry of Finance
Pål Sletten, Senior Policy Adviser,
Ministry of Finance
Pål Ulla, Deputy Director General,
Ministry of Finance
Nina Lillelien, former Senior Adviser,
Ministry of Finance
Jan-Erik Hansen, Senior Adviser,
Norwegian Government Agency for Financial Management
Gry Hamarsland, Head of Section,
Norwegian Government Agency for Financial Management

In addition, affected line ministries have been represented in the Secretariat when matters within their areas of responsibility have been under discussion. This applies to the Ministry of Transport and Communications, the Ministry of Health and Care Services, the Ministry of Defence, the Ministry of Education and Research and the Ministry of Local Government and Modernisation. The following individuals from these ministries have contributed to the work of the Secretariat:

Magnar Alsaker, former Deputy Director General,
Ministry of Transport and Communications
Magnus O. K. Worren, Adviser,
Ministry of Education and Research
Tom E. Markussen, Senior Adviser,
Ministry of Local Government and Modernisation
Helga Daae, Assistant Director General,
Ministry of Health and Care Services
Ingunn Mari Skaaden, Deputy Director General,
Ministry of Defence

The Committee has completed a total of 15 meeting days in connection with the work. In addition, two seminars have been held; one on the efficient progress of large investment projects and one on the distinction between operations and investments. The Committee has also hosted, in collaboration with Partnerforum, a major conference on decisions, investments and efficiency. In addition, international lectures have been held by representatives from Sweden, Denmark, the United Kingdom and the OECD. Affected ministries have submitted written inputs to the Committee, and national experts have made presentations before the Committee. A meeting in which the ministries presented their views on the terms of reference has also been held. An overview of individuals contributing to the work of the Committee is provided in Appendix 1.

Appendix 1, Chapter 1

Contributors

Below is provided an overview of individuals who have held lectures before the Committee, during the meetings of the Committee or in seminars and the conference hosted by the Committee.

Marianne Andreassen, Chief Executive Officer,
Norwegian State Educational Loan Fund
Fredrik Arnesen, Director General,
Ministry of Transport and Communications
Peder Berg, Deputy Director General,
Ministry of Finance
Stein Berntsen, President,
Dovre Group
Atle Birkeland, acting Head of Section,
Directorate of Fisheries
Jón Blöndal, Head of Budgeting and Public Expenditures,
OECD
Anatoli Bourmistrov, Professor,
University of Nordland
Ola Brattegard, Deputy Director General,
Ministry of Transport and Communications

Ådne Cappelen, Researcher,
Statistics Norway
Lasse Ekeberg, Deputy Director General,
Ministry of Local Government and Modernisation
Rune Fagerli, Deputy Director General,
Ministry of Defence
Colin Forthun, Deputy Director General,
Ministry of Finance
Nils Terje Furunes,
Economist
Jan Hjelle, Director General,
Ministry of Local Government and Modernisation
Erling Holmøy, Researcher,
Statistics Norway
Per Ivar Gjelstad, Senior Adviser,
Norwegian Public Roads Administration
Levi Gårseth-Nesbakk, Associate Professor,
University of Nordland
Jan Fredrik Lund, Head of Department,
Norwegian Public Roads Administration
Arne Lunde, Deputy Director General,
Ministry of Education and Research
Julie Lungholt, Deputy Head of Division,
Danish Ministry of Finance
Julian Kelly, Director General of Public Spending and Finance,
HM Treasury
Knut Klepsvik, Deputy Director General,
Ministry of Finance
Frode Mellemvik, Professor,
University of Nordland
Frode Myrvold, Director General,
Ministry of Health and Care Services
Harald Vaagaasar Nikolaisen, Chief Executive Officer,
Statsbygg
Peter Olgyai, Head of Section,
Norwegian Government Agency for Financial Management

Kristina Padrón, Senior Adviser,
Swedish Ministry of Finance
Stein Reegård, Chief Economist,
Norwegian Confederation of Trade Unions
Bettina Sandvin, Head of Department,
Norwegian Public Roads Administration
Simen Vier Simensen, Director Emeritus,
McKinsey & Company
Liv Kari Skudal Hansteen, Managing Director,
Association of Consulting Engineers
Eirik Lae Solberg, former Finance Commissioner,
City of Oslo
Øystein Thøgersen, Professor,
Norwegian School of Economics
Hans Vaalund, former Secretary General,
Ministry of Justice and Public Security, and Special Adviser,
Ministry of Finance, etc.
Dag Aarnes, Deputy Director General,
Confederation of Norwegian Enterprise
Espen Aasen, Assistant Secretary General,
Ministry of Education and Research

The following individuals made presentations at a conference hosted by Partnerforum in collaboration with the Committee:

Øystein Børmer, Director General,
Norwegian Government Agency for Financial Management
Leif Helland, Professor,
BI Norwegian Business School
Jon H. Fiva, Professor,
BI Norwegian Business School
Hans Christian Holte, Director General,
Directorate of Taxes
Tom Christensen, Professor,
University of Oslo

Jørn Rattsø, Professor, Department of Economics,
Norwegian University of Science and Technology
Åge Johnsen, Professor,
Oslo and Akershus University College of Applied Sciences
Kristin Clemet, Managing Director,
Civita think tank, and former cabinet minister
Marte Gerhardsen, Director,
Agenda think tank
Svein Gjedrem, former Secretary General,
Ministry of Finance, and Governor, Central Bank of Norway, etc.

Chapter 2
Summary, assessments and recommendations

The Committee has, based on the terms of reference, organised the report into the following thematic chapters:

- Chapter 4 General central government budgeting and accounting principles
- Chapter 5 Information to the Storting on the costs and benefits of investments and reforms
- Chapter 6 Distinction between operations and investment
- Chapter 7 Efficient progress
- Chapter 8 Multi-year budgeting
- Chapter 9 Entity accounts in conformity with SRS

Each chapter addresses items in the terms of reference, and the Committee presents its assessments and recommendations at the end of each chapter. Chapter 3 provides, as a basis for the subsequent chapters, a general discussion of central government control and management. All recommendations are unanimous.

The present chapter provides a brief summary of the assessments of the Committee, together with the recommendations of the Committee. This summary seeks to highlight those elements of the most relevance to the issues addressed in the public debate on the topics in question, rather than providing a complete condensed outline of each chapter. Reference is made to the individual chapters for additional information and in-depth discussion.

Chapter 4 General central government budgeting and accounting principles

Chapter 4 discusses the purposes of budgets and accounts, the current budgeting and accounting principles and the main elements of the discussion on accrual versus cash-based budgets and accounts. Furthermore, it provides an overview of developments in the field in Norway and internationally, a discussion of key considerations in assessing central government budget and accounting principles, as well as the relationship to statistical standards. A status update is also provided on the EU effort on joint public sector accounting standards (EPSAS), and their significance for Norway is examined.

It has at times been discussed whether central government budgeting should be based on the accruals principle rather than the cash principle. This was also proposed by the Andreassen Committee in 2003. However, several subsequent Governments have concluded that the budget system shall continue to be based on the cash principle. The main rationale behind this has been the need to use fiscal policy for stabilisation policy purposes.

Internationally, there has been a change of course in relation to fiscal accrual budgets over the last decade. Prior to the financial crisis in 2008, several countries introduced fiscal accrual budgets, often in combination with more general reforms. However, this has come to an end in the wake of the financial crisis, and cash-based appropriation decisions have again become more emthasized. The countries applying the accruals principle in their fiscal budgets supplement this with decision-making rules that provide control of the overall central government investment level, the demand effects of the fiscal budget, etc. In practice, the differences in budgeting at the central government level are less than one might be led to believe from debates over principles. The countries applying accruals principles in fiscal budgets supplement these with additional cash-based rules, whilst the countries applying the cash principle supplement this with exemptions based on accruals principles.

There have also been observed certain more problematic experiences with budgeting based purely on the accruals principle, cf. the

United Kingdom, which has abandoned its «Golden rule», and Australia, which has reverted to cash-based appropriation decisions.

It may also be noted from international developments that the number of countries preparing their central government accounts on the basis of accruals principles is larger than the number of countries applying the accruals principle in their budgets. It is perfectly feasible to have a cash-based fiscal budget and a report to the Storting on the central government accounts that features both cash-based appropriation accounts and supplementary accrual accounting information.

The Committee recommends, as will be noted from the discussion in Chapter 9, that the preparation of accrual accounts in conformity with the central government entity accounting standards (SRS) be made mandatory for all central government entities included in the fiscal budget, as a supplement to their cash accounts. Moreover, the Committee recommends that such information be reported as part of the reporting of accounts to the central government accounts, and be made available for use in, *inter alia*, comparative analyses of resource use, etc.

The Committee is of the view that access to systematic information on overall costs, revenues and balance sheet items, based on the SRS accounts of entities, will be of use to several user groups and for several purposes. Important user groups will be decision-makers in ministries, other central government entities, the Government and the Storting, but also accounts users at Statistics Norway and the general public. Information on, for example, fixed assets held by individual central government entities, grouped by area or in aggregate, is information that is not available in the current central government accounts or otherwise readily available. Joint accounting rules in conformity with SRS would offer new opportunities for comparison of information between entities and over time.

The appropriation accounts need to reflect the cash-based appropriation decisions of the Storting. The Committee does not propose the establishment of consolidated central government accrual accounts, but recommends further examination, based on the reported entity accrual accounts, of how such accounting information can be presented and compiled in an appropriate manner, also at the aggregate level.

In addition to aggregation of the entity accounts, complete central government accrual accounts (based on IPSAS) would require, *inter alia*, accrual of tax revenues, pension liabilities, receivables and liabilities in relation to central government transfers, as well as long-term central government liabilities. The Committee is of the view that the proposed approach, involving the collection and aggregation of accrual accounting information, will be compatible with a potential subsequent decision to establish formal consolidated central government accounts, for example if thus triggered by developments in EU accounting standards.

Based on the discussions in Chapter 4, the summary assessments and recommendations of the Committee are as follows:

Assessments

- In order to maintain freedom of fiscal policy action and have the ability to use fiscal policy to stabilise the Norwegian economy, whilst at the same time maintaining firm control over the long-term sustainability of public finances, it is appropriate for the fiscal budget to adopt the cash principle as its guiding principle.
- The constitutional role of fiscal budgets and central government accounts should still be attended to by application of the cash principle.
- It has yet to be clarified what will be the EU outcome on EPSAS and whether it will become mandatory for member states to introduce EPSAS. Hence, one should at the present time await such further clarification before deciding whether EPSAS should be introduced in Norway. There is much to indicate that Norway would not be required to introduce EPSAS.

Recommendations

- Efforts to examine how accrual accounts from the entity level can be compiled and presented as supplementary information should

be continued. This can, for example, be done by making the information available in a publication reporting system and/or including it as supplementary information to the Storting in the report on the central government accounts (White paper), especially with a view to conveying better balance sheet information.
- One should, at the present time, await further clarification on EPSAS before deciding whether EPSAS should be introduced in Norway.

Chapter 5 Information to the Storting on the costs and benefits of investments and reforms

The Committee has been requested to examine when expanded discussion of the overall costs and benefits of reforms and investments should be required. Whilst reforms will often, by their very nature, be about changes to institutional structures or statutory rights, or other changes that affect how society operates at various levels, investments will normally be about constructing or procuring fixed assets, IT systems, etc.

The discussion in the documents submitted to the Storting must reflect the nature of the proposals and the effects of the proposed initiatives. It must be specifically assessed, in each individual case, what information is necessary to enable the Storting to pass its resolution on a sound basis. However, the Committee notes, as a general observation, that it should as a minimum include a formulation of the problem, clear objectives and ambitions, alternative solutions and robust impact assessments – i.e. clear presentation of all cost and benefit implications.

The Committee notes, in particular, that some schemes are at present especially opaque in terms of their real long-term budget implications. Various types of small initial appropriations with significantly larger budgetary implications in subsequent years, prepayment schemes and interest compensation schemes are examples of schemes that are obscure – in the sense that little light has been shed on their budget implications. Such obscure schemes should be avoided.

Based on the discussions in this Chapter, the summary assessments and recommendations of the Committee are as follows:

Assessments

- Since reforms and investments can be rather heterogeneous, it will probably not be feasible or desirable to provide fixed, precise guidelines on when to disclose expanded information and what such information shall comprise. It should be specifically assessed, in each individual case, what information is required in order to enable the Storting to pass its resolutions on a sound basis.

Recommendations

- Generally speaking, the presentations submitted to the Storting should attach more weight to the economic analyses required pursuant to the Instructions for Official Studies and Reports, including which alternative initiatives have been considered, in order for economic profitability to become a key part of the basis for decision-making.
- The future recurring budgetary implications of the initiatives should be outlined, based on the assumptions embedded in the economic analyses, including anticipated maintenance and operations. Liabilities in future years should be outlined for the various forms of «initial appropriations», both in relation to the annual budgets and by way of net present values based on long time horizons. A number of sectors should attach more weight to the use of lifecycle calculations and plans for harnessing the realisation of gains.
- Interest compensation schemes and prepayments of future central government appropriations are schemes affording certain areas within the fiscal budget a protected position, thus weakening the scope of the Storting for balancing the level of appropriations against other fiscal budget objectives. No further such schemes should be established, and no further commitments should be made under existing schemes, after 2016.

Chapter 6 Distinction between operations and investment

It is sometimes argued that the fiscal budget treatment of investments should be changed because investments are often large relative to the budget limits of the entity or sector in question, and thus challenging to prioritise. It is argued that a distinction should be introduced between operations and investments, which distinction must be interpreted to mean that investments would be accorded priority more readily than other expenditure. It is clearly not the established distinction between operating expenditure and investment expenditure in the specification structure of the fiscal budget that those favouring a distinction between operations and investment have in mind.

Gross public sector investment in fixed assets currently represents about six percent of Mainland Norway GDP. This is a higher portion than in our neighbouring countries and in the Euro zone, and differences have increased in recent years. Such high level of Norwegian investment, in international terms, suggests that it is not particularly difficult to obtain the funding needed to make investments.

A distinction between operations and investment, in which investments are accorded priority, might be justified on the grounds that investment expenditure systematically offers more benefits than operations and maintenance expenditure, or alternatively on the grounds that the benefits from an investment last longer than the benefits from operating expenditure. However, it is not only investments that bring benefits to society. Major parts of operations and investment expenditure serve to enhance future welfare and economic growth, and it is probably not feasible to define any appropriate and operational distinction between various expenditure items based on their capacity to bring future benefits to society. A school building will, for example, be classified as an investment for budgetary purposes, whilst teacher salaries and teaching materials are classified as operations. For society, however, the teaching is the key investment, not the building. A budget system that prioritises school buildings over teachers will have unfortunate implications.

Another potential argument in favour of such a distinction is that investments can be construed as a reallocation of wealth, which should be classified differently from consumption. If an investment can be considered a reallocation of wealth from the perspective of the *treasury*, it must be either because one can subsequently sell the investment and expect to recoup the value, or because it generates a revenue flow for the treasury. Even if a public sector investment project is economically profitable and generates benefits, it will rarely generate additional revenues in public sector budgets. Besides, it is in practice often decided to implement economically unprofitable projects, thus further challenging the viability of reallocation of wealth arguments.

Nor has the Committee identified anything to suggest that the budget system in itself is significantly disadvantaging investments. The central government sector is large, and even major individual investments are small relative to the overall amount of the budget. Moreover, the budget system offers considerable flexibility, via large general allocations for investment-intensive entities, via authorisations for reordering priorities between fiscal budget items, via the scope for inter-year transfers, as well as via the scope provided in the Appropriation Regulations for passing the Stortings roman numeral decisions[1] and for stipulating an overall investment allocation for large investment projects. The impact adjustment arrangement in the internal Government budget process also contributes to ensuring that funds will, as a general rule, be allocated to all initiated investments in line with their implementation plan.

The debate on the budgeting of investments is normally based on the premise that there is insufficient investment, and that any changes shall facilitate more investment. However, it is conceivable that investments are accorded excessive priority. If investment is excessive, it may over time be difficult to ensure proper maintenance, within the scope of available appropriations, of the investments made, which may

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1 The Stortings roman numeral decisions provide ministries with budget authorisations and other authorisations that do not follow directly from the appropriation decisions. Examples of the Stortings roman numeral decisions are miscellaneous authorisations to incur central government liabilities for future fiscal years, to exceed appropriations in return for a corresponding increase in revenues, as well as to divest real estate.

reduce the economic life of the fixed assets, thus resulting in inefficient management of the considerable fixed assets already accumulated by society. Very extensive maintenance lags have been highlighted from various quarters. Such lags may in themselves be an indication that the investment level has been excessive, at least relative to the level of maintenance one is willing to prioritise within the budget limit.

It is important for the operational and maintenance costs associated with an investment to be known at the time of making the investment decision, in order to achieve a sound balance between expenditure on investment, operations and maintenance. The Committee therefore proposes that it be described to the Storting, upon the initiation of projects, what are the anticipated operational and maintenance costs. The Committee is of the view that there should also be more of a focus on the management of the existing fixed central government assets, and that systems facilitating this should be developed.

Based on the discussions in this chapter, the summary assessments and recommendations of the Committee are as follows:

Assessments

- Investments are not generally handicapped in the budget process at present. Existing budget systems do no prevent budgetary allocations from being made for new investments if these prevail in competition with other budget initiatives. Furthermore, the budget system facilitates the allocation of sufficient funds for investments under implementation to ensure that these can be completed in an efficient manner.
- The main features of the current fiscal budget treatment of operations and investments should be upheld. It will not be feasible to categorise fiscal budget expenditure in such a manner that said categorisation could provide a basis for evaluating investments against other initiatives. Consequently, alternative expenditure classification systems should not be introduced for the budget. The use of economic analyses is required to say anything about the future ben-

efits of an initiative. Thereafter, the political level will need to priorities the profitable projects over the less profitable ones.

Recommendations

- The basis for decision-making on investment projects should describe the expected operations and maintenance costs, in order to facilitate the necessary maintenance of *new* investments. This should be included in the long-term plans of entities, and should be communicated to the Storting in an appropriate manner. Accrual of costs at the entity level (cf. the recommendations in Chapter 9) will provide information on impairment/depreciation, thus offering an improved basis for the assessment of maintenance needs in the central government sector.
- Ministries and other central government entities should keep an overview of the capital stock, with plans for how each fixed asset is to be managed in the longer run, in order to facilitate the sound management of *existing* fixed assets. Such plans should also include specification of the appropriation needs resulting from said management, and be communicated to the Storting in a suitable manner.
- The scope of the public administration for exceeding investment appropriations in return for corresponding savings in the operating budget over three years, may promote good liquidity control and management in addition to efficient progress. The intention behind such arrangements should be clarified and highlighted. More entities should be encouraged to make use of the arrangement in order to make operations more efficient, and the arrangement should be expanded to, for example, five years, with a longer period for investment and the realisation of gains prior to the commencement of repayment.

Chapter 7 Efficient progress

The Committee has assessed efficient progress of central government investment projects in various sectors, including assessment as to whether any inefficient progress may be caused by the existing budget system. No specific examples have been identified of initiated projects not having been allocated funds in conformity with the adopted progress plan subsequent to an implementation resolution.

The Committee's assessment of the budget system is that it does not impede the efficient progress of projects. Instead, the system facilitates the efficient planning and implementation of projects. Predictable long-term investment terms are achieved by using the current appropriation system, including Section 6 of the Appropriation Regulations, which implies that the Storting may authorise commitments to third parties for the duration of all or part of the investment period of a project.

Moreover, the basis for the fiscal budget process of the Government is the impact-adjusted budget. This includes a continuation of schemes already adopted by the Storting, and is intended to highlight implications of maintaining the political status quo and to provide a basis for assessing the reordering of priorities. It does, at the same time, allow scope for the continuation of appropriations for investment projects that have been commenced, or that are going to be commenced during the fiscal year, on the basis of the expenditure needs in the development plan. Consequently, appropriations to ensure the efficient progress of projects will, generally speaking, be accommodated via Section 6 of the Appropriation Regulations and the impact adjustment. Any deviations from this would have to be the result of active, political decisions on the part of the Government or the Storting.

The planning system in the road and rail sector is complex. Much of what happens during the planning phase is dictated by statute, primarily via the Planning and Building Act. Major road and rail projects are clarified step by step via municipal sector plans and zoning plans. Consequently, road projects tend not to be the result of general plans and prioritisations. They are instead initiated as the result of a number of local initiatives. It would be desirable to have more overarching planning in the road sector than at present, to promote an increased emphasis on profitable projects and appropriate progress, but it falls outside the terms of reference of the Committee to make specific recommendations in such regard.

Another problem that may arise in the planning phase is that the scope of projects changes during planning. This may result in significant cost increases. The Committee believes that a design-to-cost project planning system should be defined. Projects should be tailored to cost estimates prepared at the commencement of project planning. This will promote more realistic financial estimates in the decision-making process and prevent projects from suffering scope creep.

A number of the suggestions for changes to budget systems are frequently invoked in transport policy circles. The Committee has reviewed the planning and budgeting systems of investment-intensive central government sectors. It seems evident from such review that the transport sector is in a special position in terms of the complexity of project planning, the political selection of relevant projects and, not least, expectations as to which projects shall be implemented. It would also appear that the funding and decision-making system provides, especially for road projects, an inadequate impetus for selection of the most profitable projects and for design-to-cost implementation of these.

Empirical studies of road project cost developments suggest that costs increase by between 40 and 60 percent between the National Transport Plan (NTP) and completion, depending on which cost index is used for conversion to fixed prices. The main part of the cost increases occurs during the planning phase. Consequently, the real political decisions on the projects encompassed by the NTP are made at a stage when projects, and hence also cost estimates, have not matured sufficiently, and costs are clearly underestimated.

Based on the discussions in this chapter, the summary assessments and recommendations of the Committee are as follows

Assessments

- The current budget system functions satisfactorily in terms of promoting the efficient progress of projects. The Storting may, pursuant to Section 6 of the Appropriation Regulations, authorise central government to make commitments to third parties for the duration of all or part of the investment period of a project.

- It is a problem in several sectors that the scope of projects changes materially during planning; so-called scope creep. For the road sector it is, for example, reported that costs increase, from the NTP estimates to the final cost, by between 40 percent (estimates based on price conversion using the building and construction index) and 60 percent (estimates based on price conversion using the retail price index).
- The road sector might realise significant economic gains by changing its planning system in the direction of more overarching planning than at present. Such a change should be combined with more freedom of action at the executive level to maximize the economic profitability of road projects, based on said overarching guidance. However, this would entail changing the planning system of the sector and modifying local resolutions relating to the toll funding of national roads. Making recommendations on such matters falls outside the terms of reference of the Committee.

Recommendations

- An arrangement for central government design-to-cost project planning should be developed. The objective of such an arrangement would be to promote realistic cost estimates in the choice of solutions and efficient investment project progress by providing improved cost control and scope control for central government projects. A process should be initiated for preparing realistic design-to-cost estimates for the projects to be included in the NTP 2018–2029.
- The road sector should be subject to a greater element of portfolio control and management than at present. Control and management by the Storting should be reoriented towards the establishment of general criteria and objectives for road investments. Thereafter the selection of specific projects should to a greater extent than today be entrusted to lower levels than the Storting. There is a need for clear overall budgetary control and management at the portfolio

level, to prevent the commencement of more projects than can be funded with efficient progress.

– When submitting individual projects to the Storting for its approval, the Committee recommends the introduction of a requirement for a description of what constitutes efficient progress at the project level, based on an optimisation of the project in terms of the three variables content, cost and time.

Chapter 8 Multi-year budgets

The Committee has been requested to assess «the appropriateness of multi-year budgets (…) on a general basis» and «take a closer look at selected sectors in which multi-year budgets (…) are of particular relevance». However, the terms of reference do not specify what should be the format of such multi-year budgets. The Committee has chosen to focus on two different alternatives: The first alternative is binding resolutions on appropriations for selected areas several years into the future. Such a model might, for example, involve transport appropriations being resolved outside the ordinary budget process, in connection with the discussion of the National Transport Plan every fourth year. The second alternative is a multi-year budget framework encompassing the entire expenditure side of the budget, as recommended by the OECD. This would enable expenditure growth to be linked explicitly to the fiscal policy framework, such as to make it consistent with a specific petroleum revenue spending path and specific tax level developments. These two alternatives will exhibit very different qualities, and will need to be considered from the perspective of the various considerations that have to be taken into account when preparing the budget.

The motivation behind the introduction of binding multi-year budget resolutions in selected areas would be that fluctuations in appropriation levels result in inefficient resource use. Money is wasted during periods when appropriations are expanded, unless the government body charged with spending such money has planned for an expansion. Correspondingly, money is wasted if appropriations are scaled back suddenly, and ongoing projects need to be scaled down or abandoned.

However, the Committee has been unable to identify examples of inadequate funding having resulted in construction projects not having achieved efficient progress. Chapter 7 identified certain factors that may have resulted in inefficient resource use within the transport area. Unpredictable funding is not one of these. This is in line with the assessments of the Productivity Commission, which has also examined efficiency in the transport sector, and which has also concluded that unpredictable funding is not a key problem.

Furthermore the Committee notes that the scope for committing the Storting for future fiscal years appears to be used extensively within the transport area. This locks in future budgets, and results in a high degree of predictability as to the appropriation level for transport projects over the next few years. Authorisations are granted both for investment projects and for operations and maintenance.

The Committee notes that binding multi-year budgets for selected areas can reduce allocative efficiency. If expenditure levels in individual areas are fixed at high levels, and it subsequently becomes necessary to tighten government budgets, the outcome may be a different allocation between areas than is politically desirable. Alternatively, tightening in areas not subject to restrictions may be too politically contentious, thus resulting in a weak fiscal policy response overall.

All in all, the Committee believes that binding multi-year budgets for selected areas will impair the ability of central government to handle uncertainty. By sheltering parts of the expenditure side from uncertainty, the other parts of the budget will be faced with more uncertainty. That would not be an improvement.

Additionally, the Committee has examined the scope for introducing a multi-year budget framework. Such frameworks may differ somewhat in their characteristics, depending on how they are structured. The OECD recommendation is to move towards binding budget limits on expenditure for each ministry. In order to change such budget limits when one enters the fiscal year in question, the Storting would in such case have to amend its earlier resolution.

The Committee agrees with the assessment of the OECD that a multi-year budget framework may contribute to improved allocative efficiency and to more efficient resource use within each budget area, because the political planning horizon is extended. However, much will depend on how such a framework works in practice. The OECD itself notes that many countries have experienced that multi-year budget frameworks have reinforced the tendency of ministries to protect their own budgets.

The Committee is of the view that insufficient heed is paid to medium-term budget implications when deciding policies. This implies that policies are discussed and adopted that may turn out to be difficult to implement beyond the short term or, if implemented, may have detrimental effects on other policy areas. This impairs allocative efficiency, and may result in resources being wasted. This may put pressure on the fiscal policy framework over time, especially after petroleum revenue spending peaks and the funding contribution from the Government Pension Fund Global starts to decline as a portion of GDP in the mainland economy.

The Committee believes that better and more comprehensive information on medium-term budget implications may make it easier for the Storting to pay heed to considerations beyond the fiscal year in question. However, the Committee is not convinced that multi-year budget frameworks will work as intended as long as we are on a path where petroleum revenue spending is intended to increase. Norway has not faced tight budget limits for the last two decades, and expectations have been created, both in political circles and elsewhere, to the effect that there will still be considerable scope for funding new initiatives via the fiscal budget. This means that an upper cap on expenditure may readily be perceived as a lower cap on expenditure. The Committee does not, against that background, recommend the introduction of a multi-year budget framework. Instead, it is recommended to broaden and deepen the description of the central government revenue and expenditure outlook for the medium run.

Based on the discussions in this chapter, the summary assessments and recommendations of the Committee are as follows:

Assessments

- No binding multi-year budget resolutions should be introduced in individual areas. The flexibility required to ensure the predictability of individual projects is achieved via Section 6 of the Appropriation Regulations, which enables central government to make future commitments.

Recommendations

- The multi-year central government revenue and expenditure outlook should be communicated more clearly than at present, with the revenue and expenditure side being considered in relation to each other. Medium-term projections (three to five years beyond the upcoming fiscal year) should be submitted, based on existing policies and demographic developments. Budgetary implications of plans deliberated by the Storting for individual areas should also be explained. Light should be shed on the fiscal space in the coming years. The uncertainty associated with economic and fiscal developments, and the potential budget policy implications thereof, should be specifically addressed.

Chapter 9 Entity accounts in conformity with central government entity accounting standards (SRS)

The central government entity accounting standards (SRS) stipulate rules for preparing entity accrual accounts in the central government sector. Chapter 9 provides an assessment of the implications of a potential mandatory requirement for the application of SRS in central government entity accounts, including whether accrual accounting information shall also be reported to the central government accounts, in addition to the current cash-based reporting. The chapter reviews current central government accounting arrangements, as well as central government accounting regulation developments over the last 20 years. Special weight is attached to experience from the application of SRS, and the ways in which accrual accounts will differ from cash-based accounts are discussed. The chapter also provides an overview of which entities would be affected, as well as the expected costs and benefits of making SRS compulsory.

Central government entity accounts have been subject to gradual developments and standardisations. Such developments include the introduction of a mandatory, standardised chart of accounts, new requirements for specifications and for the publication of annual reports and annual accounts for central government entities, as well as the development and voluntary application of SRS. These initiatives serve to enhance the basis and scope for comparisons across central government entities, based on uniform templates and principles, and for comparisons over time within each entity.

These developments are endorsed by the Committee. Joint accounting principles for entity accounts is a form of standardisation that will increase efficiency. The benefits from a joint standard for all entities outweigh any advantages from individual selection of accounting principles on the part of each entity. Considerable weight must be attached to transparency in relation to the general public, which will be better if accounting principles in central government entity accounts are standardised and identical for all entities.

The SRS are tried and tested in central government entity accounts and provide useful supplementary information for users. Expertise and training resources have been established in relation to the standards, which can be drawn on if mandatory application is introduced. The introduction of a standard chart of accounts facilitates adoption inasmuch as the accounts required for accrual/closing provisions are already included in such chart of accounts. This will make a transition from cash-based entity accounts to SRS-based entity accounts simpler and less costly, and associated with less risk than if the chart of accounts had to be established anew.

The benefits of mandatory SRS application are associated with efficiency enhancement through standardisation, the potential for comparison and learning across central government sectors and transparency in relation to the general public. Accounts conforming to SRS will, generally speaking, provide a better basis for analyses of the relationship between resource use and outcomes, and a more comprehensive overview of assets and liabilities.

The Committee has weighed the costs against the benefits associated with the initiative, and has concluded that where the benefits are relatively minor, the costs and disadvantages are also modest. The Committee refers to the cost calculation presented in Chapter 9.6.7, and is of the view that the introduction costs are sufficiently well documented. The costs of ongoing operation are assumed to be relatively modest, but difficult to estimate. Costs can to some extent be compared to those of introducing a standard chart of accounts, which was done without allocating extra resources to the entities, although it entailed a certain technical and administrative organisation effort on the part of such entities.

The Committee recommends the introduction of mandatory entity accounts in conformity with SRS for central government entities. The current reporting to the central government accounts in conformity with the cash principle should be continued. Once entity accounts in conformity with SRS have been established in all central government entities, limited resources will be required to introduce procedures for the reporting of accrual accounting information. The Committee attaches weight to the useful supplementary information thus provided, which would complement the current central government accounts. Entity accrual accounts compiled for all central government entities would provide more complete and precise information than the current central government accounts. The Committee therefore recommends the introduction of mandatory reporting of entity accounts in conformity with SRS to the central government accounts.

Based on the discussions in this chapter, the summary assessments and recommendations of the Committee are as follows:

Assessments

– Central government entity accounts have been subject to gradual development and standardisation. The scope for consistent comparison over time within each entity, and the scope for comparison across the central government sector on the basis of joint accounting principles, will provide useful supplementary information.

Recommendations

- It should become mandatory for central government entities to prepare their entity accounts in conformity with the central government entity accounting standards (SRS). To the extent that this turns out to be a challenging issue, or the costs are not justifiable in view of the benefits on the part of each entity and the central government sector as a whole, an exemption may be applied for under the financial management rules.
- The reporting of accrual information from the entity accounts should be made mandatory, alongside cash-based information to the central government accounts.
- Efforts should continue to achieve simplification and standardisation in areas where entities are currently subjected to differential treatment, for example in relation to pension premiums and holiday allowances.
- A reasonable period of time should be allowed for the changeover. A period of 2–3 years would give entities time to incorporate the work into their other plans, and a changeover for central government entities should take effect from the 2019 fiscal year at the latest.

Press release from the Committee
Date: 1 December 2015

Expert Committee recommends:

The Storting must be provided with a better basis for decision-making

– We recommend that the future central government revenue and expenditure outlook be presented more clearly than at present. The freedom of fiscal policy action over the coming three to five years should be highlighted, and the future implications of individual proposals in the fiscal budget should be communicated more thoroughly. On the other hand, we advise against the introduction of multi-year appropriation resolutions and the special treatment of investment expenditure, says Øystein Børmer, the chairperson of the Committee.

Mr Børmer has over the last year been chairing a Government-appointed Expert Committee that has been examining multi-year budgets in selected areas and a clearer distinction between investments and operations in the budget.

– We believe that central government control will improve if our recommendations are adopted. Sound decision-making requires the fiscal and other implications of decisions to be examined and presented to decision makers. This is not being done adequately at present, says Mr Børmer.

– Insufficient heed is paid to future implications when designing policies. Policies are discussed and adopted that it may turn out to be difficult to implement within a responsible fiscal framework. This increases the risk that the final outcome will be suboptimal prioritisations or weak fiscal policy control, continues Mr Børmer.

The current budget system has many strong points

The Committee has also addressed issues that are often raised in discussions of central government budget processes, such as multi-year appropriation resolutions, a distinction between operations and investment, as well as whether the budget system impairs investment project progress.

– Our review of these issues leads to the conclusion that changes are not merited; I believe that we have instead highlighted the rationale behind the present arrangements in several areas. Many aspects of the current budget system are well-functioning, and it is important to retain these, concludes Mr Børmer.

The recommendations of the Committee

The Committee has presented a total of 22 assessments and recommendations. The recommendations include:

- The multi-year central government revenue and expenditure outlook should be communicated more clearly than at present. The revenue and expenditure side of the fiscal budget should being considered in relation to each other, thus shedding light on the freedom of fiscal policy action over the coming years.
- The presentations submitted to the Storting should attach more weight to economic analyses, including which alternative initiatives have been considered.
- Budgetary implications of individual proposals deliberated by the Storting should be better explained. Such implications include, for example, future operational and maintenance costs associated with new investments.
- An arrangement for central government design-to-cost project planning should be developed, to promote more realistic financial estimates in the early planning phase and to prevent scope creep.
- It should be made mandatory for central government entities to supplement the current cash-based accounts with entity accounts based on the accruals principle (in conformity with the central government accounting standards). This will promote more efficient central government resource utilisation, by better facilitating comparison and by providing an integrated and systematic overview of assets and liabilities. The fiscal budget and the appropriation resolutions of the Storting should still be based on the cash principle.

See Chapter 2 of the NOU 2015: 14 Green Paper, *Better basis for decision-making, better control*, for a summary of the assessments and recommendations of the Committee.

Facts concerning the Børmer Committee:

- The Børmer Committee is a Government-appointed Expert Committee, which was appointed on 10 October 2014, after it was stipulated in the Government's platform of 7 October 2013 that a new public committee were to be appointed to assess multi-year budgets in selected areas and a clearer distinction between investments and operations.
- The Committee submitted its report to the Minister of Finance, Siv Jensen, on 1 December 2015.
- The Committee has been chaired by Øystein Børmer, Director General, Norwegian Government Agency for Financial Management (DFØ).

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Published by:
Norwegian Ministry of Finance

Internet address:
www.government.no

Printed by: DSS – 12/2015

MILJØMERKET
241 Trykksak 379