

Evaluation of the economic impacts of legislative projects

The central government spending limits procedure has been in use since 1991. A key objective of this procedure has been to curb growth in expenditure. About three-fourths of budget appropriations are tied to statutory tasks. Consequently evaluating the economic impacts of legislative reforms is of key importance when it comes to curbing growth in expenditure. Provisions affecting the budget are handled in the form of finance acts. These must be passed by Parliament before the budget can be approved. In 2000-2009 some 40-50 draft finance acts were submitted annually in connection with the budget.

The Government issues a spending limits decision each year. This decision also includes a calculation of spending limits in each administrative sector. One point of departure in the audit was the risk that the spending limits procedure can weaken the open presentation of the economic impacts of legislative projects. The main question was whether the relation between legislation and the evaluation of the economic impacts of the spending limits procedure is open and complies with other principles of good governance.

The audit's basic data were draft finance acts pertaining to expenditure items in the 2008 and 2009 state budgets. The audit found that the spending limits procedure creates predictability in the sense that ministries have an idea what appropriations will be available for reforms over a period of several years in their administrative sectors. The audit nevertheless found that the relation between the spending limits procedure and the drafting of legislation is not open and does not comply with the principles of good governance in all respects. The audit noted first of all that the scope of expenditure that is excluded from the spending limits is not clear from the viewpoint of the objective of the spending limits system. Furthermore there is a risk that the spending limits procedure will not encourage ministries to conduct thorough advance studies regarding the eco-

conomic impacts of legislative projects when the economic impacts of reforms are tied to statutory tasks. These matters weaken Parliament's role as the exerciser of budgetary power and also present a risk for the functioning of the spending limits procedure in a way that ensures the sustainability of central government finances.

The audit showed that the spending limits procedure in its present form does not encourage genuine cross-sectoral cooperation aimed at solving social problems or the reallocation of resources based on cross-sectoral cooperation. Observations indicate that the basic problem hampering such a reorientation is the connection between the content of the Government Programme and the spending limits procedure. The content of legislative projects has often been decided in the Government Programme, which means that officials do not have real possibilities to look for sounder alternatives. It is of course up to the political decision-making system to provide grounds in the Government Programme for the reevaluation of public policy, but evaluation needs related to the reallocation of resources between administrative sectors based on social objectives have not been taken into consideration in administrative, process or organisational solutions. Coordinating timetables in the annual spending limits process, the drafting of the budget and the drafting of finance acts limits opportunities to prepare and evaluate reform projects more broadly.

The National Audit Office considers that the Government Programme should leave manoeuvring room for project planning and the weighing of different options. To this end the relations between the content of the Government Programme, the annual spending limits procedure and the drafting of legislation should be reevaluated. The coordination of the content of the Government Programme, the annual spending limits procedure and the drafting of legislation could be improved by reducing the scheduled reforms specified in the Government Programme. The National Audit Office considers that the specification of reforms in the Government Programme should be placed in the context of the predictability of impacts. Furthermore, in specifying projects attention should be paid to possibilities to reverse or change the impacts of reforms.

The audit also found that there are weaknesses in the evaluation of the economic impacts of reform projects and that evaluation data are not transparent or uniform in all stages of decision-making. On

the basis of observations, evaluations have not always taken adequately into consideration the economic significance of a reform or its impacts on central government finances as a whole. There are gaps in documentation regarding the evaluation of impacts, and documentation practices are not uniform. The audit noted that problems in evaluating the economic impacts of legislative projects differ according to the area of application. The ability to evaluate the impacts of legislative projects involving business is weakened by the unpredictability of supranational regulation as well as rapid changes in markets. With regard to structural reforms the audit observed shortcomings in the evaluation of anticipated benefits as well as expenditure during the transition stage of reforms.

The National Audit Office considers that the utilisation of evaluation data should be promoted by improving access to information in different stages of preparation and decision-making. To assist in the drafting of legislation and related monitoring, an information system should be created for the joint use of administration and Parliament. The National Audit Office considers that the infrastructure for drafting legislation should be evaluated to ensure that it is up to date and usable as a tool for identifying legislative needs, determining the scope of target groups and anticipating changes in behaviour.

From the viewpoint of Parliament's information needs, the evaluations of impacts that are included in the proposals that are submitted to Parliament by the Government are essential. Audit findings suggest that in describing economic impacts, not enough attention is paid to Parliament as a user of information. The National Audit Office considers that the economic impacts of finance acts should be pointed out more clearly in proposals' structure. On the basis of the audit, little information has been presented on possibilities to manage economic impacts during the implementation. In individual reform projects the aim should be to avoid producing evaluation data only for a particular period, but to present essential impact linkages and shed light on matters regarding the manageability of impacts. The National Audit Office considers that the evaluation of the manageability of impacts should receive more attention in revising guidelines for drafting government proposals.

In addition the National Audit Office considers that in managing the economic impacts of legislation, possibilities for flexible regula-

tion should be evaluated so that impacts can be managed in response to different changes in the operating environment.

The National Audit Office considers that the manageability of the total economic impacts of legislation should be strengthened. Changes in the operating environment can be unexpected and rapid. This underlines the need to react rapidly to new situations. On the other hand legislation should create stability and predictability as a basis for economic activity. Both viewpoints should be kept in mind in drafting legislation and evaluating impacts. The National Audit Office also considers that the timeliness of legislation and the content and impacts of reforms should be examined in a broader scope. Legislation should support processes that are beneficial for society and boost government revenues and should prevent processes that are harmful and place pressure on public spending. In order to identify essential impact linkages with respect to government revenues and expenditure in individual reform projects, procedures for evaluating and monitoring legislation should be established.