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European  
Public  
Mosaic

May 2018

# 5

**PUBLIC BUDGET  
TENDENCIES**

OPEN  
JOURNAL  
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SERVICE

## ARTICLES

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## INTERVIEW

Alexander Heichlinger, European Union

Good practices  
New trends  
Newsflash



Generalitat de Catalunya  
**Escola d'Administració Pública  
de Catalunya**

# Public budgeting tendencies in Catalonia

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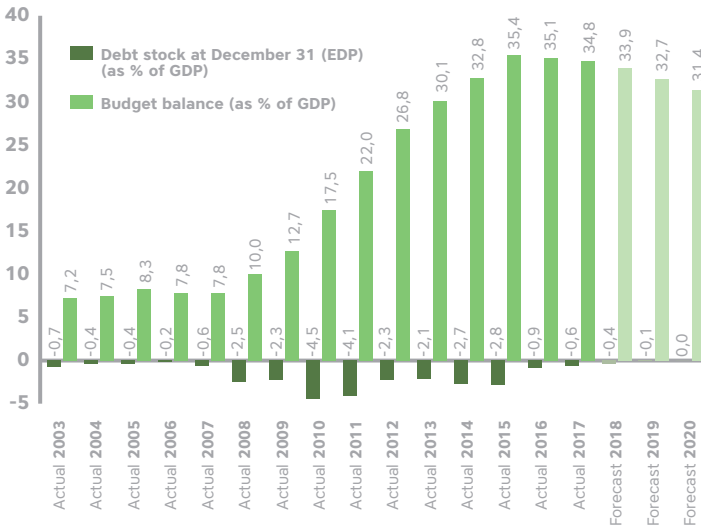
## **Abstract**

*Performance Budgeting and Medium–Term Budget Frameworks (MTBF) are usually considered as central tools for governments in order to accomplish the goals of aggregate fiscal discipline and allocative and operational efficiency. This article summarizes the actions and lessons learned in the past by the Catalan Government at implementing such reforms, the corresponding current and prospective actions for improvement, and the reinforcement provided by introducing Spending Reviews, systematizing Policy Evaluation and boosting Budget Transparency.*

The Catalan Government is struggling to rebalance its finances in order to get back on a fiscally sustainable path. The economic and fiscal crisis hit Catalan finances and produced large deficits and debt growth. After some fiscal years of strong budget adjustments, the deficit target has been accomplished in 2017 (0.6% of GDP) and debt has been stabilized (lower than 35% of GDP). Despite these recent results, the Catalan Government still faces high risks of fiscal unsustainability and the challenge of fitting the impact of ageing and introducing large social

The Catalan Government still faces high risks of fiscal unsustainability and the challenge of fitting the impact of ageing and introducing large social programs into a context of limited spending growth

### Catalan Government consolidated deficit and debt stock



Source: Ministry of the Vice-presidency and of the Economy and Finance. Government of Catalonia.



programs (e.g. citizens' basic income) into a context of limited spending growth.<sup>1</sup>

Having a sound public financial management is a critical issue when dealing with such challenges in order to provide value for money to taxpayers in a fiscally restricted situation. According to literature, public expenditure management (and its systems) is intended to accomplish the following main goals (Allen & Tommasi, 2001): 1) *Maintain aggregate fiscal discipline*, assuring financial sustainability, solvency and the chance to perform fiscal counter-cyclical policies; 2) *Allocative efficiency*, by allocating budgetary resources according to priorities and results; and 3) *Technical efficiency of service delivery*, implementing programs and services by optimizing the input-output relation.

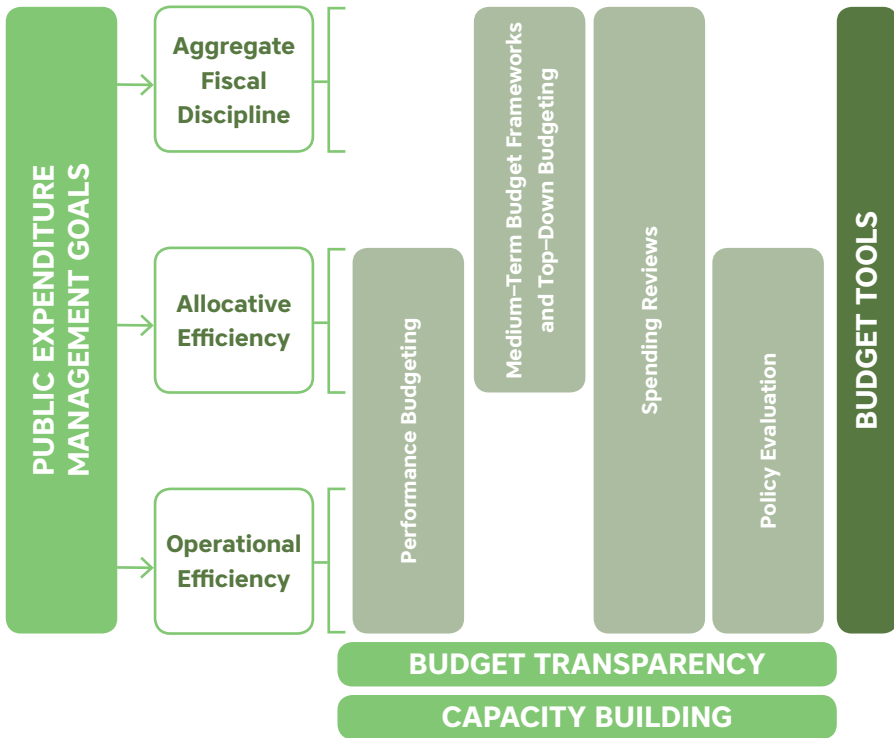
Over time Public Budgeting systems have evolved and developed different analytical and procedural techniques and tools to attempt to achieve these goals. Among different tools and techniques, Performance Budgeting, Medium-Term Budget Frameworks (MTBF) and Top-Down Budgeting, Spending Review processes and the intense use of evidence provided by Policy Evaluations have been usually considered as some of the most relevant.

This paper reviews the past practices, the current practice and the foreseen developments regarding these tools in the Catalan Government and also prospects concerning budget transparency.

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1. Mainly because of the expenditure rule goals compliance related to the Spanish Budget Stability regulation.

## Public expenditure management goals, and budgeting practices and tools



Source: Own elaboration.

### Performance Budgeting

Performance Budgeting was introduced in the Catalan Government in 2006 as part of a budget reform package which also included regularizing the budget elaboration process, widening the institutional perimeter covered by the budget, and the improvement and homogenization of budget structures (Maluquer & Tarrach, 2006). Performance Budgeting was mainly introduced by requesting (and publishing) program



BUDGET INSTITUTIONAL PERIMETERS
 
**€25,292 m**

**Generalitat**
**(1 entity)**

It includes departments and non-departmental funds

**€25,361 m**

**Administrative  
Public Sector**  
**(21 entities)**

It includes Generalitat, Catalan Healthcare Service and autonomous administrative entities

**€28,310 m**

**Public Sector**
**(182 entities)**

It includes Generalitat, Catalan Healthcare Service, autonomous administrative entities and 161 entities with majority shareholding

**€27,813 m**

**PA-ESA Sector**
**(174 entities)**

Includes Generalitat and all the entities classified as Public Administration according to ESA regulations except public universities (Includes those in which Generalitat does not have a majority stake)

performance plans and requiring program performance reports once fiscal year ended. Also generalized introductory training was provided to financial and planning officials in the Government.

After a few years of implementation, program performance plans were improved and simplified, performance measures reduced their volume, IT developments were applied and the explicit linkage of programs with the Government Strategic Plan was enhanced.

Although the reform improved internal and external budget transparency and helped to introduce performance orientation on the existing administrative culture, the goals with regards to improving the allocation and the operational efficiency of resources were not accomplished (Sort, 2009).

The following elements were identified as the main causes of this situation: the generation of non-relevant performance information (mainly activity-oriented and input-based), the lack of related systematic processes of spending scrutiny, non-formalized budget requests and negotiation based on performance information, a tight budget calendar for analytical tasks, inadequate program budget structure, the absence of a corporate cost accounting system, low pressure on program performance reporting and no integration with recurrent department and entities' management. Some of these elements are part of what is generally considered as key shortfalls in implementing Performance-based Budgeting Systems (Cangiano, Currustine & Lazare, 2013; Moynihan & Beazley, 2016; Tarrach, 2011; Robinson, 2011).

After more than 10 years of implementation, the Catalan Budget Office is currently working on a new push to progressively implement a Performance Budgeting system. Taking advantage of recent and future developments, and the synergies with MTBF, the next initiatives are under consideration and the design to be introduced includes:

- Improvement of the program budget structure and accounting accuracy, and generalized breakdown into subprograms.
- Agreed works on defining relevant and robust program performance measures.
- Creation of a new budget request system based on information and evidence of performance.

**After more than 10 years of implementation, the Catalan Budget Office is currently working on a new push to progressively implement a Performance Budgeting system**



- Adaptation of the budget calendar and the organization, and focus of the budget negotiation.
- Improvement of the program performance reporting contents and document publication.
- Inclusion of the evidence provided by increasing activities of public spending scrutiny (Spending Reviews and Policy Evaluation).
- Budget planning and analysis skills improvement of departments and entity officials.
- Boosting and supporting the development of a corporate cost accounting system.
- Managing reform expectation, strengthening communication and changing management initiatives.

## Medium–Term Budget Frameworks and Top–Down Budgeting

Even though there previously existed some sort of internal Medium–Term Budget Frameworks in the Catalan Government, a more formal introduction and intense use was carried out in 2008, and more especially in 2009 for the elaboration of the Budget 2010 and the MTBF 2010–2012 (Pallarols, 2011).

At that time, the MTBF covered a time horizon of three fiscal years<sup>2</sup> and showed the following characteristics: a partial coverage of depending entities (some

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2. The next budget to be formulated plus two forward fiscal years.



large administrative entities but no public companies, consortia or foundations), indicative expenditure multi-year ceilings, a clear differentiation between “baseline (or continuation) budget” and “new initiatives” (meaning policy changes) in the budget requests and multi-year projections, and an expenditure baseline budget model centralized by the Budget Office and computed by considering multi-year commitments, non-recurrence of capital spending, specific estimates on personnel spending and the use of inflation adjustments (Baños, 2011). Also some improvements were introduced with regards to providing multi-year revenue forecasts, like applying some consensus and econometric forecasting models in order to provide more accurate estimates and simulation exercises.

Nevertheless, political changes, the sudden need for huge imposed and self-imposed fiscal consolidation adjustments, and also the absence of suitable IT backup for multi-year data and technical weaknesses of the adopted system (e.g. its partial coverage and imprecise expenditure baseline projections) interrupted MTBF’s development and integration with annual budget formulation.

In the following years even though MTBF was not fully operational, important key improvements were put in place to set up a future new implementation. These improvements were mainly related to acquiring a detailed knowledge of department and entity spending, progressing on the expenditure baseline projection methodology and expanding

**Political changes, the sudden need for huge imposed and self-imposed fiscal consolidation adjustments, and also the absence of suitable IT backup for multi-year data and technical weaknesses interrupted MTBF’s development and integration with annual budget formulation**



the number of entities (all administrative entities) and fiscal years (four) covered by these projections. These improved expenditure baseline projections helped to support setting expenditure ceilings for line departments during the annual budget elaboration process and provided medium-term spending trends for fiscal planning and reporting (in some cases to the Spanish Central Government).

Currently the Budget Office is working to be able to fully integrate MTBF with the annual budget elaboration process in the coming fiscal years. The current work focuses on the following items:

**Currently the Budget Office is working to be able to fully integrate MTBF with the annual budget elaboration process in the coming fiscal years**

- Introduction of some last accuracy improvements on expenditure baseline projections, mainly a better consideration of one-off expenditures and the impact on current expenditures of finalized capital projects.
- An increased ownership of expenditure baseline projections by giving room for a greater participation of departments and entities.
- Integration and unification of the MTBF data and process with an annual budget elaboration process (of a Performance Budgeting system).
- Integration of the results of Spending Reviews with the multi-year expenditure ceilings and estimates.
- Use of multi-year ceilings to control multi-year commitments during budget execution.

## Spending Reviews

The Catalan Government recently introduced Spending Reviews on its public financial management system in order to generate fiscal space by obtaining budget savings through an increased efficiency on spending.<sup>3</sup> Spending Reviews were introduced when passing the Budget Act of 2017, which in its second additional provision announced the mandate to perform reviews for all Expenditure Policies for the 2017–2020 period.

The Catalan Government defined its Spending Review system after considering its own needs and context and by learning from international experiences.<sup>4</sup> The Catalan approach is based on an annual review process, selective (instead of comprehensive), at a program level, which combines strategic and efficiency reviews, performed by mixed working teams (Budget Office and the corresponding line department) and with rules by mixed commissions, and where the identified and obtained savings will be mainly returned to line departments.<sup>5</sup>

To test the methodology and the process organization, a pilot project was conducted during 2017 by reviewing the Penitentiary

**The Catalan Government recently introduced Spending Reviews on its public financial management system in order to generate fiscal space by obtaining budget savings through an increased efficiency on spending**

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3. Spending Review processes are practices that are recommended and encouraged by EU institutions (e.g. Eurogroup statement of September 9, 2016).
  4. Like observing the experiences and lessons from Spending Review processes in the United Kingdom, Ireland, Australia, France, Netherlands and Germany and being inspired by program performance analysis/evaluation systems in Chile, the United States and Canada.
  5. To obtain more information about the Catalan Spending Review system consult the following web link: [http://gestio.economia.gencat.cat/en/70\\_ambits\\_actuacio/pressupostos/revisio-despesa](http://gestio.economia.gencat.cat/en/70_ambits_actuacio/pressupostos/revisio-despesa)



**Spending Reviews have shown their potential advantages at generating savings, and better allocation and use of public resources, being a powerful tool aligned with a Performance Budgeting and MTBF system**

services and alternative penal measures program of the Department of Justice. As main results, the pilot Spending Review provided 35 recommendations, principally on the general management of the program (60%) and the efficiency of expenditure (20%), the average annual impact of which would potentially mean around 5% of program expenditure.

This pilot Spending Review helped to verify the consistency of the adopted methodology and approach and also to provide useful knowledge to introduce some improvements in the organizational and analytical work: better staff and work planning, further guidance on certain analytical work, the enhancement of internal peer reviews during report drafting, the strengthening of the analytical skills of mixed working teams and the improvement of communication and meetings organization.

After the pilot experience, Spending Reviews have shown their potential advantages at generating savings, and better allocation and use of public resources, being a powerful tool aligned with a Performance Budgeting and MTBF system. For fiscal year 2018, six new Spending Reviews are planned and the implementation of the savings measures generated is expected to be integrated into the budget process.

## **Policy Evaluation**

Some evaluation and monitoring units exist within the Catalan Government in order to provide better evidence for formulating and

implementing public policies: the Catalan Institute for the Evaluation of Public Policies (**Ivàlua**),<sup>6</sup> the Agency for Health Quality and Assessment of Catalonia (**AQuAS**), the Catalan University Quality Assurance Agency (**AQU**) and the **Evaluation Council of the Education System**, the **Regulation Improvement Area** and the **Economic Evaluation Area** (AAE) in the Budget Office.

Since 2011 the Budget Office has been working to introduce policy evaluation, and especially economic evaluation, to better inform budget decisions. In 2013 the Economic Evaluation Area was created and in 2011 and 2014 significant regulations<sup>7</sup> were introduced to require the use of economic evaluation to approve *ex-ante* certain expenditure initiatives and to generalize spending evaluation.

For non-regulatory spending initiatives with a budget impact over 10 million euros or which are considered as strategic, a requirement to submit a **Social & Economic Impact Report (IIES)** was established. The contents of this report are related to the initiative justification and need; its strategy and goals; the consideration of alternatives, benefits and costs of the initiative and the alternatives; the option selection; and the definition of a monitoring system and an *ex-post* evaluation plan. This report implies presenting an *ex-ante* economic evaluation (preferably a Cost-Benefit Analysis) for

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6. For further information about Ivàlua and the development of evaluation in Spain and Catalonia, see **Udina and Balaguer, 2018**, in the *European Public Mosaic (EPuM)* number 4.

7. Government Agreement of December 20 (2011) and the amendment of Article 31 of the Catalan Public Finance Act.





The Catalan Parliament approved the 2017 budget on 22 March last year.

these proposed initiatives. After presenting these reports, approved initiatives could be *ex-post* evaluated to verify their social returns.

However, the reception of these reports allowed the detecting of some recurrent pitfalls: non-robust option selection processes, lack of definition of active alternatives, defects in considering and monetizing social benefits and costs, incomplete sensitivity and risk analysis, and vagueness in defining monitoring and *ex-post* evaluation systems.

To reinforce a systematic evaluation and its linkage with Performance Budgeting, an Economic Evaluation Promotion Plan 2017-2019 has been defined. This plan

set the goals of 1) Facilitating economic evaluation, 2) Spreading the advantages of economic evaluation and 3) Integrating economic evaluation in the recurrent management cycle, and contains the following actions:

- Improvement of the IIES requirement to better adapt to the different types of initiatives.
- Development of an evaluation specific model for capital projects prioritization and selection (in a multi-year capital expenditures programming system).
- Reinforcement of l'Àlvia evaluation work and AAE supporting tasks.
- Development of an Annual Economic Evaluation Plan.
- Creation of a competitive fund to co-finance evaluation initiatives.
- Provision of new technical tools to carry out easier economic evaluation (Library of Cost and Benefits, Economic Evaluation Tool, etc.).
- Boosting of sector specific training on economic evaluation.

## Transparency

Transparency in all the stages of the budget cycle is vital to provide a clear understanding to citizens of the use and impact of their taxes, and so to ensure democracy and government accountability. Since 2006, jointly with a first package of budget reform measures, budget documentation of the Catalan Government





Recently budget transparency has been enhanced by providing new and improved documents and new infographic and data visualization tools to make budget information more accessible and understandable for all citizens

has been substantially improved, mainly concerning **draft and approved budgets**. The following years improved **reports of budget execution**, budget **indicators** and **statistical time series**, and **budget open data** were made available to the public on the corresponding website. Recently budget transparency has been enhanced by providing new and improved documents (e.g. **Citizen Budget** or the **Budget presentation**) and new **infographic** and **data visualization** tools to make budget information more accessible and understandable for all citizens.

Despite these actions, the Catalan Government still has room to improve its budget transparency in order to draw closer to what are considered the highest standards<sup>8</sup> and the following elements are currently under development: the Pre-Budget Report and Pre-Election Budget Report, the provision of further fiscal risk and MTBF information in budget documentation, the mirroring of draft budget documents in the Budget Outturn documentation and the expansion of the use of interactive data visualization tools (Open Budget Tool).

## Conclusion

An adequate implementation and a full holistic integration of the tools mentioned will help to create synergies and processes, and obtain information and evidence to better inform current and future budget

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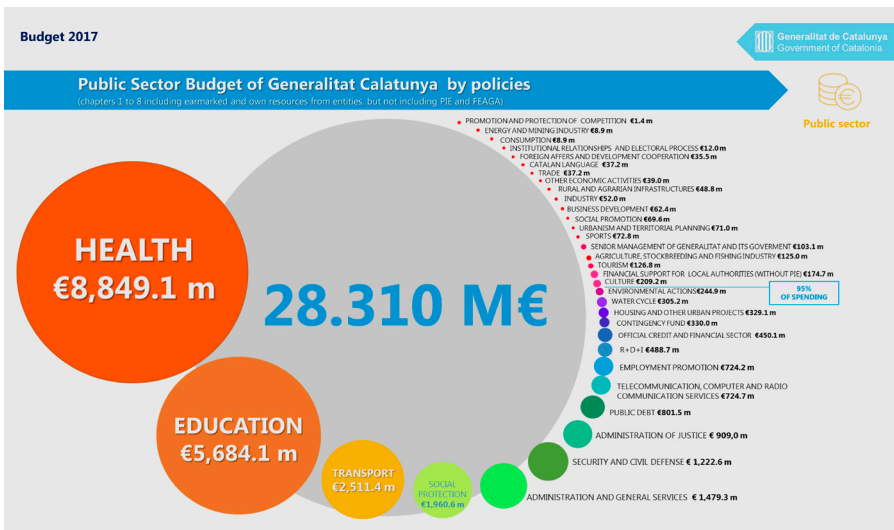
8. Such as the ones set by the IMF's Fiscal Transparency Code, the OECD Best Practices for Budget Transparency, the IBP's Guide to Transparency in Government Budget Reports or the PEFA assessment framework.



decisions. The lessons obtained from past reform attempts have provided not only the key technical elements to be improved (and the way to do it), but also the need to reinforce the work on cultural change and building capacity in the line departments. Furthermore, past reforms based mainly on big bang implementations have not fully attained the desired objectives, and so, a progressive, iterative and flexible continuous implementation may be tested and perhaps will result in being more effective (Andrews, Pritchett & Woolcock, 2012).

The digestion of a first wave of reforms, the acquired knowledge and the current trends of work are helping to build a better public financial management system in the Catalan Government. That fact will be crucial when facing the challenges of rebalancing the budget and assure its fiscal sustainability when dealing with a more complex context of social spending needs. ■

The digestion of a first wave of reforms, the acquired knowledge and the current trends of work are helping to build a better public financial management system in the Catalan Government



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# Key practices in multiyear budgeting: the medium-term budget framework

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## **Abstract**

*The medium-term budget framework (MTBF) is an important instrument for both strategic budgeting and sustainable macro-fiscal management. This article provides a brief overview of the key concepts underpinning MTBF design and implementation. It surveys common types of MTBF; illustrates how the MTBF can be linked to the annual budget using the concepts of “rolling baseline” and “fiscal space”; and highlights the critical role of program specification and costing in the multi-year forecasting (estimates) process. It concludes by identifying key institutional features to help increase the likelihood of successful MTBF implementation.*

In most developed economies, the fiscal consolidation strategies implemented in response to the global financial crisis (GFC) of 2007-2009 continued to rely on the medium-term budget framework (MTBF), one of the key budget planning practices of modern public expenditure management (OECD 2012). When combined with other fiscal framework components, such as fiscal rules and performance budgeting, the MTBF is an important means for addressing the weaknesses of annual budgeting for revenues and expenditures; for example, because most budget expenditures are non-discretionary (think pensions and debt servicing) an annual timeframe militates against policy change for longer term fiscal adjustment (Schiavo-Campo, 2017: 94-5).

## Defining the medium-term budget framework

To better recognize the fiscal impact of policies, a MTBF integrates the annual budget formulation cycle with a medium-term (3 to 5 year) planning process. It can be defined as a multiyear expenditure planning and management framework that typically contains three elements:

1. a medium-term envelope of aggregate resources set by the finance ministry

**Combined with other fiscal framework components, the medium-term budget framework (MTBF) is an important means for addressing the weaknesses of annual budgeting**



consistent with macroeconomic stability and government policy priorities (a “top-down” component),

2. an estimate of the medium-term resource needs (or costs) of the existing activities of spending ministries (a “bottom-up” component), and
3. an iterative process of budget decision-making that reconciles the cost of existing and new activities with the resources available over the medium-term (Brumby & Hemming, 2013: 223).

The MTBF is usually associated with the three technical objectives of public budgeting: aggregate fiscal discipline, or better control over budget totals; allocative efficiency, or more strategic allocation of resources between priorities; and technical efficiency, or more efficient use of resources by spending ministries (Schick, 2009). When integrated with the annual budget, a MTBF contributes to these objectives in various ways: for instance, *allocative efficiency* can be



strengthened by providing decision-makers with more detailed program cost and performance information as well as the flexibility of a longer timeframe to reallocate resources between lower and higher priority programs. However, whilst the three technical objectives are often seen as discrete purposes in systemic budget reform, in reality they can conflict – the increased certainty necessary for aggregate control is not always consistent with the flexibility required for reprioritizing spending – and therefore MTBF design will just as often have to trade-off between them.

## Common types of MTBFs

Since they can be configured using different institutional arrangements, there are different variants of the MTBF. Here, we look at two common conceptual categories.

The first category is “forecasting versus programming” MTBFs (Allen & Tommasi, 2001: 182-3). This categorizes MTBFs on the basis of *where and how the medium-term estimates of expenditure are generated*. In a “forecasting MTBF” the finance ministry produces medium-term projections of estimated aggregate expenditure and may then allocate this across sectors and spending ministries, who are expected to manage budgets within the ceiling. A forecasting MTBF is “top down” and based on the best estimates of the finance ministry. In a “programming MTBF” the finance ministry constructs medium-term projections of

**When integrated with the annual budget, a MTBF is usually associated with three technical objectives of public budgeting: aggregate fiscal discipline, allocative efficiency and technical efficiency**



In a “programming MTBF” the finance ministry constructs medium-term projections of estimated aggregate expenditure based on the costing by spending ministries of existing programs

estimated aggregate expenditure based on the costing by spending ministries of existing programs. A programming MTBF is “bottom-up” – the forward estimates are built on the funding needs of costed programs – and because it is intended to be revenue constrained this variant makes a clear distinction between “existing” and “new” programs. Most, if not all, countries operating a MTBF will utilise both types, even if, as tends to be the case in low capacity governance contexts, the “forecasting MTBF” is little more than an extrapolation of current budgets and the “programming MTBF” simply defines programs in terms of existing organisational functions rather than objectives-based activity groups.

The second category is “indicative versus binding” MTBFs (Harris, Hughes, Ljungman & Sateriale, 2013: 138-145). This categorizes MTBFs on the basis of whether the medium-term estimates presented with the budget are *intended to bind future decisions*, i.e. whether they are “hard” or “soft” expenditure ceilings. In an “indicative MTBF” the medium-term estimates of both revenue and expenditure are revised each year without reference to the estimates set out in the previous year; in this framework, the forward years are intended to estimate future costs but do not necessarily offer certainty for spending ministries. The “forward estimates” process in Australia and the “reference level adjustment” process in Canada are examples of an “indicative MTBF”; in both cases the estimates are an adjustable baseline for assessing the impact of





spending decisions. In a “binding MTBF” the medium-term projections are designed to both estimate future costs and constrain future decisions, although it can do this in different ways, for example, by fixing ceilings at either the aggregate or ministry level. The “binding MTBF” is illustrated by multiyear budgeting arrangements in Austria and the Netherlands where hard aggregate expenditure ceilings apply for a fixed term (and are not revised during that period) and in general act to limit the introduction of new programs.

### Linking the MTBF with annual budgeting: a “rolling baseline” illustration

So, in practice, how can a medium-term framework be integrated with the annual budget process to support a more strategic approach to budget preparation? Drawing on the “forward estimates” process that marks the MTBF operating in Australia, the

In a “binding MTBF” the medium-term projections are designed to both estimate future costs and constrain future decisions



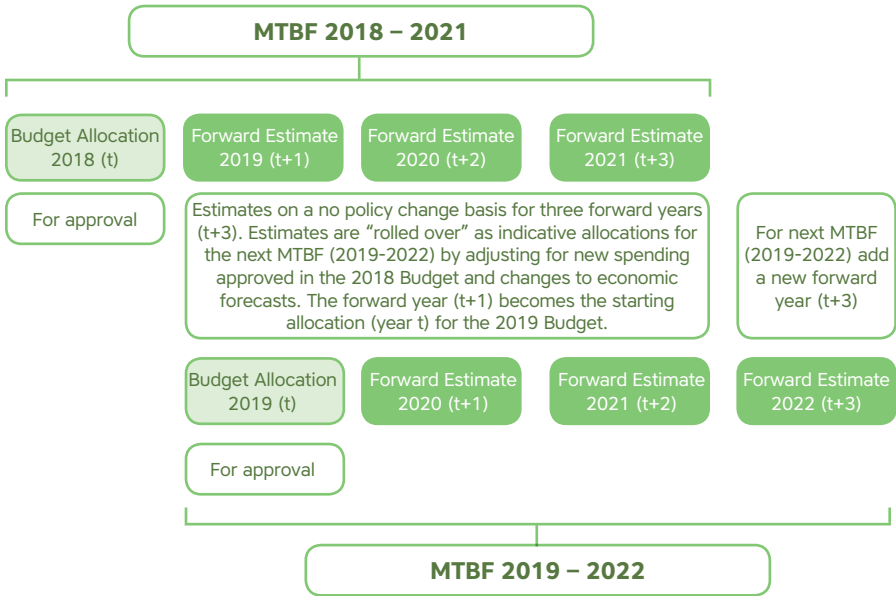
mechanism of “rolling baselines”, and the associated concept of “fiscal space”, can help to explain.

Figure 1 sets out an illustrative “rolling” MTBF. The MTBF covers a four-year planning period, comprising the budget year (year  $t$ ) and three forward years ( $t+1$  to  $t+3$ ). The three forward years cover baseline projections of the cost of all existing programs, and do not allow for the introduction of new programs. The cost estimates set out in the forward years are said to be on a *no policy change* basis: expenditure on existing programs is assumed to be constant so that any variations to the baseline can be explained. The purpose of the annual budget process is to make sure that any incremental budget decisions – whether new programs or an expansion of existing activities – are assessed and explained in terms of their impact on the forward year estimates. In this way, and when combined with information on either the need for – or the performance of – programs, the medium-term estimates are designed to make annual budget decisions more strategic.

As a type of scorecard for annual budget decision-making, the MTBF works through the mechanism of “rolling baseline projections”: once the budget is finalized, the first year of the forward estimates becomes the base year for next year’s budget and another forward year is added to the estimates. Using the illustrative MTBF, this means that once the 2018 Budget is finalized, the 2018-2021 MTBF estimates are “rolled over” by adjusting for new programs approved in the 2018

Budget (and any adjustments to economic parameters). The first forward year (t+1) becomes the starting budget allocation for the 2019 Budget process, and a new forward year (t+3) is added to commence the 2019-2022 MTBF period. This process continues for each subsequent year.

**Figure 1. A “rolling” MTBF and the annual budget process**



Source: This diagram is adapted from ODI (Overseas Development Institute) (2003).

In this illustrative MTBF, the “no policy change” basis of the cost projections over the forward years is the level of expenditure required to continue to undertake existing activities, i.e. the “baseline”. If there is also an aggregate expenditure ceiling in place over the medium-term estimates period, the



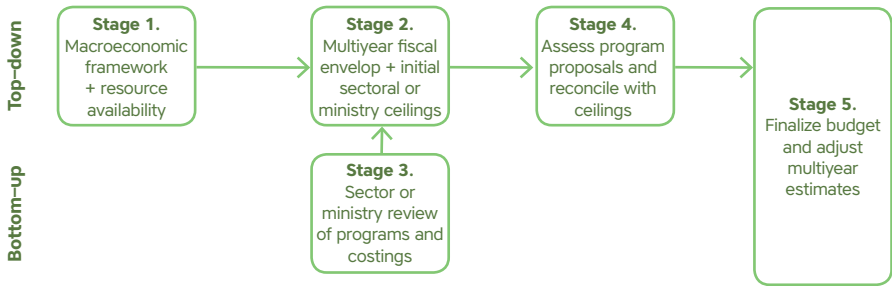
difference between the ceiling and the baseline is known as “fiscal space” (Schick, 2009). Fiscal space can be “positive” (where the available revenue exceeds the baseline) or “negative” (where the baseline exceeds the available revenue). Both cases illustrate the fundamental importance of distinguishing “existing” and “new” programs within an MTBF, as well as the need for systemic capacity to define and cost these programs. In circumstances of positive fiscal space, the budget process rations available resources between new or expanded programs, and in the case of negative fiscal space (as occurred following the GFC) it becomes a framework for reviewing and reprioritizing existing spending. A high level of integration is required between the annual budget process and the MTBF to make this work (Robinson, 2013a).

**It is fundamental to distinguish between “existing” and “new” programs within an MTBF; there is also the need for systemic capacity to define and cost these programs. In the case of negative fiscal space it becomes a framework for reviewing and reprioritizing existing spending**

### **Estimates within a MTBF: The role of program specification and costing**

Different types of MTBF place different emphases on the role of “top-down” forecasting and “bottom-up” costing within the medium-term estimates of expenditure. However, all of them, as well as the budget process to which they relate, implement a basic sequence of stages and informational outputs. Figure 2 below sets out a basic five stage process for an illustrative MTBF budget process. It is worth highlighting three of these stages.

**Figure 2. Basic stages of an illustrative MTBF budget process**



Source: This diagram is adapted from Overseas Development Institute (2003).

In Stage 1, the finance ministry sets the strategic macroeconomic framework, including multiyear projections for revenues, expenditures and debt levels. In particular, to moderate the political pressure for revenue optimism bias, reliable tax revenue forecasts are critical to medium-term budgeting in order to achieve sustainable financing of planned expenditure programs, and to help maintain budget stability. This not only requires strong technical forecasting capacity and close coordination between revenue policies and budget management strategies, but is also highly dependent on the underlying efficiency and integrity of revenue administration (and the conversion of assessed revenue into collected revenue) (Glenday, 2013).

In Stages 2 and 3, multiyear expenditure estimates can be constructed using either finance ministry projections of current spending trends, spending agency costings of existing programs, or a combination of



**Reliable tax revenue forecasts are critical to medium-term budgeting in order to achieve sustainable financing of planned expenditure programs, and to help maintain budget stability**

both. More often than not these estimates take as their source historical spending data for ministries or functions, rather than constructing total cost estimates based on the actual costing of existing activities (“programs”). Finance ministries will tend to apply general costing assumptions to existing programs as part of forecasting methodologies (such as price deflators to escalate expenditure) and require spending ministries to apply more specific costing methodologies when preparing cost estimates for new – or expanded existing – programs (such as demographic data to estimate demand for entitlement programs) (Di Francesco & Barroso, 2015). The accuracy and consistency of new program costing takes on a higher priority within the incremental decision making of the annual budget process.

Cost information has been a fundamental component of PFM reform over the last quarter century. This can be attributed

World Bank Headquarters.



to the general focus of these reforms on *programmatically budgeting*, which requires that budget expenditures be *allocated and controlled* on the basis of objectives-based programs and subprograms. Because program structures constitute instructions to organizational units on how to manage and control their budgeted resources, this has two important consequences (Robinson, 2013b). The first is that program structures need to be defined in a feasible way to ensure allocations can be mapped between programs and organizational structures, as well as to permit a workable approach to assigning indirect costs – usually internal support services – to programs. The second consequence is that program structures must be integrated with both budget expenditure classifications and the chart of accounts. Cost information, and the costing systems used to collect and report cost information, must be closely aligned with the program structure.

Therefore, the budget and forward years' estimates within a MTBF should be constructed on the basis of estimating the actual cost of existing government programs, rather than taking historical levels of expenditure as a starting point and mechanically escalating for changes in, say, price levels. In other words, the effectiveness of "forecasting" (top-down) and "programmatically" ("bottom-up") elements of MTBFs is dependent on the accuracy of spending ministry cost estimates for both existing and proposed programs, which in turn relies on the feasibility of program structures.

**The effectiveness of "forecasting" (top-down) and "programmatically" ("bottom-up") elements of MTBFs is dependent on the accuracy of spending ministry cost estimates for both existing and proposed programs**



## Conclusion: Basic criteria for assessing readiness for MTBF implementation

In a comprehensive analysis of international experience with multiyear budgeting, the World Bank identified a set of “key institutional determinants” that “countries should be focusing on” in order to maximise the likelihood of successfully implementing a MTBF (World Bank, 2013: 57-8). They fall into four broad categories.

The first of these is a *commitment to a new approach to budgeting*. The MTBF is a long-term process of cultural change, representing a “different approach to budgeting”. It requires significant modification of political and bureaucratic behaviours to set priorities subject to resource constraints.

**The MTBF is a long-term process of cultural change, representing a “different approach to budgeting”. It requires significant modification of political and bureaucratic behaviours to set priorities subject to resource constraints**

The second, related category is *organizational adaptability and technical capacity*. This goes to the institutional flexibility of the Ministry of Finance and its resident technical capacity to deliver information to support the MTBF. It recognizes that a MTBF is neither documentation nor a process that can simply be attached to existing budget systems.

To the extent that a MTBF is used to achieve or strengthen fiscal discipline, the third category of determinants is *appropriate macro-fiscal policies and institutions*. This include a combination of high level fiscal rules (such as aggregate expenditure controls) and the creation of independent fiscal monitoring bodies (to



verify the credibility of macroeconomic and fiscal forecasts).

Finally, the fourth type of determinant comprises *sound budget systems and properly sequenced public financial management reforms*. Acknowledging the constant need to tailor reform strategies to each country's starting position, the World Bank suggests that the key determinant is to focus MTBF implementation on basic budget preparation reforms that deliver more reliable assessment of available aggregate resources, and basic budget execution reforms to increase the likelihood that allocations are adhered to. ■

**The World Bank suggests that the key determinant is to focus MTBF implementation on basic budget preparation reforms that deliver more reliable assessment of available aggregate resources**



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# Recent trends on spending reviews in the European Union

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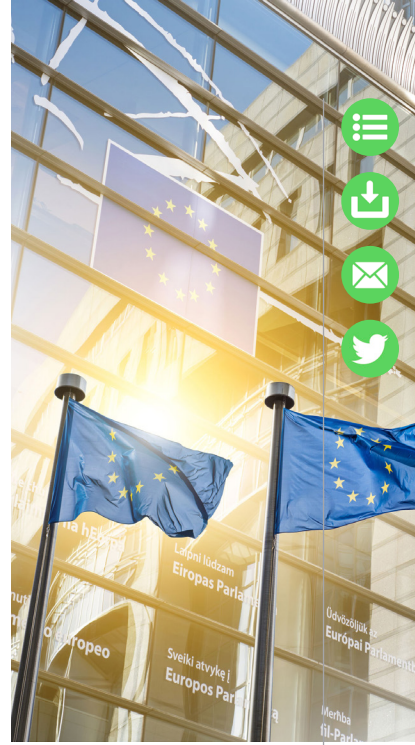
## **Abstract**

*Over the last few years, the use of spending reviews has become widespread within the European Union (EU). Spending reviews, used as a tool to combine an in-depth analysis of public spending and a decision-making mechanism conducive to “smart” savings proposals, have benefited from strong support via the EU economic governance framework. Hence, almost all Eurozone countries are currently engaged in a spending review process. Political ownership and good articulation with the budget process remain in this respect key success factors.*

## What are spending reviews for?

Over the decades and faced with growing fiscal constraints in most developed economies, Public Financial Management (PFM) practitioners have grown more and more aware of the limitations of the traditional budget preparation process.

The traditional budget preparation process is governed by tight deadlines, most often of a constitutional nature, which leave only little time to Ministry of Finance and line ministries to invest in the analytical work required to understand the substance of public policies, and develop “smart” savings options. Hence, the traditional budget preparation process mostly relies on incremental changes, whereby the amount spent in year N is the best predictor of the amount of appropriations which will be allocated in year N+1. In such a traditional process, when confronted with fiscal difficulties, Minister of Finance officials are most often led to advice to their political masters to resort to across-the-board cuts or very crude parametric measures (non-indexation or diminution of transfer payments or public payroll, horizontal rules on hiring of civil servants). This can be effective in the short run to close a fiscal gap – but the sustainability



**We must never forget what the budget process should be all about: allocate a rare resource – public money – in the most efficient and effective manner, following clear political priorities**

**The most transformative instrument in terms of helping the budget preparation process to become more conducive to real savings has probably been the diffusion of spending reviews**

of such an approach in terms of quality of the public service provided to citizens is of course questionable. Above all, it is a negation of what the budget process should be all about: allocate a rare resource – public money – in the most efficient and effective manner, following clear political priorities.

Several tools have contributed to improving this traditional budget process. The diffusion of program budgeting (instead of line-item budgeting) establishes a better link between amounts spent and objectives and results of public policies. The shift to a more medium-term oriented budget (diffusion of Medium-Term Budget Frameworks, where the ceilings for individual ministries and / or policy areas are set not only for the next fiscal year, but for two or three additional years afterwards) is also one such instrument. However, the most transformative instrument in terms of helping the budget preparation process to become more conducive to real savings has probably been the diffusion of spending reviews.

A spending review, as per a widely accepted definition proposed in a paper from the Organisation for Economic Co-operation and Development (OECD),<sup>1</sup> can be described as “the process of developing and adopting savings measures, based on the systematic scrutiny of baseline expenditure”.

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1. “Spending review”, Marc Robinson, 2013, in an OECD paper developed for the June 2013 meeting of Senior Budget Officials.

A spending review, hence, requires a combination of analytical work and a well-designed decision-making mechanism in order to identify and get political endorsement for savings options.

## The precursors in the European Union: Northern Europe

In the 1980s and 1990s, some Member States of what was then called the European Economic Community engaged in spending reviews. In these countries, a situation of acute national fiscal crisis was often the triggering factor. The Netherlands (public deficit equal to 8.9% of Gross Domestic Product in 1983), Denmark (public deficit of 9% of GDP in 1983), Sweden (public deficit of 12% of GDP in 1993) were all a case in point. In those countries, spending reviews were a major factor in reining in public deficits through identification of savings option leading to reduction of public staff and transformation of public administration.

The United Kingdom was also at the forefront of the development of spending reviews. However, the first UK “spending reviews” in the 1980s focused mostly on allocating incremental increases in expenditure and not on identifying savings measures. It was not until the Gershon Efficiency Review in 2003-2004 that a first UK spending review was conducted with the deliberate aim of delivering savings options – though mostly with a view to increasing fiscal space for reallocation to higher-priority expenditures. The Gershon Efficiency Review was reported to have

**Spending review requires a combination of analytical work and a well-designed decision-making mechanism in order to identify and get political endorsement for savings options**



delivered gross savings of a total of £21.5bn, compared to an overall public sector budget that was then approximately £520bn.

Hence, by the early 2000s, spending reviews still had a relatively limited diffusion within the European Union, even though there was a growing awareness of their importance as a tool to improve public spending. An example of this increasing awareness is to be found in France, where in 2006<sup>2</sup> the Pébereau Committee mentioned the conduct of a comprehensive spending review as one of its main proposals to re-establish French public finances on a sound footing.

## The diffusion of spending reviews in the aftermath of the Global Financial Crisis

Building up on the recommendations of the Pébereau report, the new French government after the 2007 presidential elections decided to launch a comprehensive spending review, named “Révision Générale des Politiques Publiques” (RGPP), which started effectively in July 2007.

In so doing, France was in fact a front runner in a second wave of spending reviews which spread after the Global Financial Crisis had morphed into the European sovereign debt crisis. Several

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<sup>2</sup> “Rompre avec la facilité de la dette publique”, 2006, Report from the Committee chaired by Michel Pébereau, available under: <http://www.ladocumentationfrancaise.fr/var/storage/rapports-publics/054004454.pdf>. The conduct of a far-reaching spending review modelled is mentioned as recommendation number 12 (pages 171-172).



countries facing acute distress in their public finance embarked on spending review exercises in order to deliver savings – and also to attest to their will to improve the governance of their public finances. This was the case in Ireland (with the report of the Special Group on Public Service Numbers and Expenditure Programmes in 2008/2009, followed by a spending review under the Economic Adjustment Programme), Italy (with a series of spending reviews led since 2012), Spain (with the Commission for the Reform of Public Administration 2012-2015). Portugal and Greece also committed themselves to conducting spending reviews as part of their respective Economic Adjustment Programme, and did so in 2013-2014, with technical assistance received notably from the Fiscal Affairs Department of the International Monetary Fund. Romania also conducted – with assistance from the World Bank – a “functional review” in 2011 which shared many of the characteristics of a spending review (analytical content, development of savings options, link with decision-making and implementation – channelled through the Balance of Payment Programme which was underway at the time).

## **A generalisation of spending reviews strongly supported by the European institutions**

By the middle of the 2010s, spending reviews had gained in visibility. For the European institutions and especially for the European Commission, they came to be seen as a way to go beyond the

**After the Global Financial Crisis had morphed into the European sovereign debt crisis, several countries embarked on spending review exercises in order to deliver savings and to improve the governance of their public finances**





“growth vs. austerity” debate by promoting a new narrative, stressing the quality of public finance and the need to improve the growth orientation of fiscal policy by selectively cutting expenditure and making redeployments towards higher-priority areas.

At a technical level, this positive vision of spending reviews was notably captured in a European Commission paper authored by Caroline Vandierendonck in July 2014, which provides useful insights on the design, conduct and implementation of spending reviews and their development in Europe.<sup>3</sup>

At a political level, this support for spending reviews was conveyed through the EU economic governance framework. Every year, on the basis of a proposal by the European Commission that is discussed

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3. “Public spending reviews: design, conduct, implementation”, Caroline Vandierendonck, July 2014, available under: [http://ec.europa.eu/economy\\_finance/publications/economic\\_paper/2014/ecp525\\_en.htm](http://ec.europa.eu/economy_finance/publications/economic_paper/2014/ecp525_en.htm).

among all Member States, a series of so-called “country-specific recommendations” are adopted and addressed to each individual Member State, outlining recommended reforms in the fields of fiscal, economic, and social policy. Since 2015-2016, launching or making good use of a spending review process often features as part of country-specific recommendations in the fiscal field.

Under the chairmanship of Dutch Finance Minister Jeroen Dijsselbloem, the Eurogroup (informal group of Finance Ministers of the Eurozone) also gave strong backing to the development of spending reviews. A discussion in Bratislava (September 2016) led to the adoption of an official Eurogroup statement<sup>4</sup> including a clear call on the participating Member States “to actively use spending reviews”, described as offering “a complementary means of supporting fiscal responsibility through reviewing priorities in public expenditure” and “contribut[ing] to a more growth-friendly composition of the budget”.

The Eurogroup also endorsed a set of common principles, or “good practices”, for the use of spending reviews, namely:

- strong and sustained political commitment;
- design and implementation of spending reviews following best practices, including notably a clear strategic

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4. “Eurogroup Statement – Thematic Discussions on growth and jobs – Common principles for improving expenditure allocation”, available under: <https://www.neweurope.eu/press-release/eurogroup-statement-thematic-discussions-on-growth-and-jobs-common-principles-for-improving-expenditure-allocation/>



**In line with this strong political momentum, spending reviews have over the last three to four years generalized across the European Union, with only a few exceptions**

mandate (precise objectives, scope covering a significant share of general government spending, a well-defined center of coordination), the use of pilots to build expertise, and the provision of adequate resources;

- regular and transparent monitoring and communication to the public, including transparent ex-post evaluation, and;
- consistency with annual and multiannual budget planning, and with a national fiscal framework that should include the principle of running regular spending reviews to inform budget preparation.

In line with this strong political momentum, spending reviews have over the last three to four years generalized across the European Union, with only a few exceptions. In the Eurozone, all but two Member States declared in Spring 2017 that they had completed, or ongoing, or planned in detail a spending review following the parameters listed in the abovementioned Eurogroup Statement.<sup>5</sup> Even Germany, which has long resisted innovations in its budget preparation process, has since 2015 introduced regular spending reviews. This was based on an OECD diagnostic commending the strong “top down” budgeting processing in Germany, conducive to very good overall respect of fiscal targets, but regretting the insufficient focus on effectiveness and efficiency of expenditure. Spending reviews are now regarded by the German Federal

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5. Source: data from a survey conducted by the Commission in April-May 2017.

Ministry of Finance as a key plank in their strategy to improve the quality of public spending and identify fiscal space for possible reallocations.<sup>6</sup>

It must be also mentioned that in addition to political support, the European institutions also offer support for the implementation of spending reviews. This is the role of the European Commission’s technical assistance service, the Structural Reform Support Service (SRSS), which provides or facilitates technical support to EU Member States on their request. Since its creation in July 2015, SRSS has been heavily involved – in partnership with the IMF’s Fiscal Affairs Department (FAD) and other technical assistance providers (including experts from the budget directorates of some EU Member States) – in spending review processes in several Member States. Currently SRSS is supporting no fewer than seven spending review processes in various EU Member States (Cyprus, Malta, Romania, Slovakia...).

## Conclusion

As a conclusion, it can be said that spending reviews are here to stay. They constitute a flexible tool to address the limitations of the budget preparation process, especially its short-termism and lack of focus on effectiveness of spending. However, they represent a significant investment in time and expertise and will only be worthwhile if a series of key success factors, of which political will is paramount, are duly met. ■



Spending reviews are here to stay but will only be worthwhile if a series of key success factors, of which political will is paramount, are duly met

6. See “Spending Reviews im Bundeshaushalt” for more details, available under: [https://www.bundesfinanzministerium.de/Web/DE/Themen/Oeffentliche\\_Finzen/Bundshaushalt/Spending\\_Reviews/spending-reviews\\_2017.html](https://www.bundesfinanzministerium.de/Web/DE/Themen/Oeffentliche_Finzen/Bundshaushalt/Spending_Reviews/spending-reviews_2017.html)



# The end of progress toward greater budget transparency? Findings from the Open Budget Survey 2017

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## **Abstract**

*The International Budget Partnership's Open Budget Survey 2017 reveals stalling progress toward greater budget transparency globally. While European countries score above the global average, the same trend applies to the region. Less than half of European countries make the minimum information available to allow for meaningful public deliberation about the budget. This article synthesizes budget transparency, oversight and participation practices in the region and points to areas for improvement.*

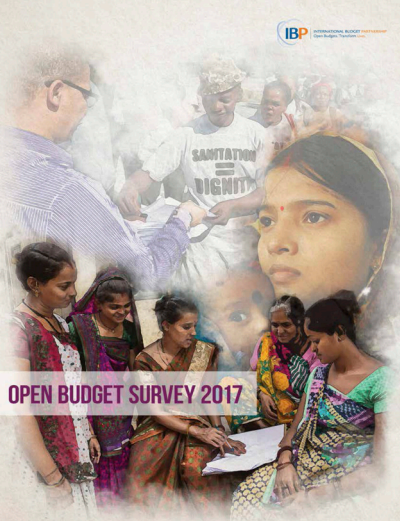


## The Open Budget Survey 2017

Budgeting is at the heart of public administration. Choices about the allocation and use of public resources determine if and how public services function. Making choices about the budget is also at the core of representative democracy: it is where executives, legislatures, auditors, and citizens meet to discuss social priorities and to ensure that resources are used effectively to deliver these priorities. Understanding the degree of openness of government budget processes across countries is therefore a measure not only of good practices in public financial management, but also of the degree to which public services are governed in a democratic manner.

The Open Budget Survey (OBS) 2017 assesses government budget practices across 115 countries. The survey has been carried out roughly every two years by the International Budget Partnership (IBP) and a network of country-based partners since 2006. It is not an opinion survey; it is rather a factual assessment of budget documents and observable practices in each country. Responses are gathered from independent researchers and anonymously peer reviewed. Governments are also

**Understanding the degree of openness of government budget processes is a measure not only of good practices in public financial management, but also of the degree to which public services are governed in a democratic manner**



given a chance to review the survey before publication and provide comments. Responses, reviews, government comments, and IBP's final curated score for each question are all made available to the public.

The largest part of the OBS focuses on the transparency of eight key budget documents that inform the four stages of the budget cycle: formulation, approval, implementation, and audit/evaluation. The responses to these questions are used to generate the Open Budget Index (OBI), which scores country practices and allows for comparisons over time and across countries. The core of the index is public availability of documents: when a document is not made available to the public, it is given a score of zero on the OBI. Documents that are published are scored on the level of detail they provide.

The remaining parts of the survey assess oversight practices by legislatures and supreme audit institutions, and formal opportunities for public participation in the four stages of the budget process. In 2017, the questions on oversight were revised and the participation section of the survey was redesigned to incorporate evolving global norms. These changes make the OBS 2017 more robust, but scores on these parts of the survey are not comparable with previous rounds.

## 2017 Findings

The Open Budget Survey 2017 finds that, globally, progress toward greater transparency has stalled, declining



modestly for the first time in over a decade of measuring it. An important driver of this year's deceleration is the reversal of previous gains in Sub-Saharan Africa. Of the 27 countries in Sub-Saharan Africa in both the 2015 and 2017 surveys, 22 saw their transparency (OBI) scores fall in this round. With the exception of Asia, other regions saw slower growth or modest declines in their scores on the OBI this round compared to last.

Table 1 below shows changes in OBI scores between 2015 and 2017 for the 27 countries that IBP surveys in the European Union, and using a broader definition of Europe. On average, the EU shows a modest decline in transparency, while those countries outside of the EU show a modest increase. Major changes are those that are five points or more in either direction. By this standard, there was a fairly high degree of stability between rounds. Albania, Georgia, Turkey and Ukraine saw substantial gains in transparency during the period; Azerbaijan, Bosnia and Herzegovina, the Czech Republic and Poland saw substantial declines. (Moldova only entered the survey in 2017).

Globally, slowing progress in this round of the survey was driven mainly by a decline in the number of budget documents published, rather than the comprehensiveness of those documents. The comprehensiveness of published budget documents available in both 2015 and 2017 actually increased marginally, from a weighted average of 61 in 2015 to 62 in 2017. But, overall, the 102 countries assessed in both rounds of the survey (13 new countries were

**The Open Budget Survey 2017 finds that, globally, progress toward greater transparency has stalled, declining modestly for the first time in over a decade of measuring it**



added in 2017) published 37 fewer budget documents. Sub-Saharan Africa accounted for 27 of these.

**Table 1. Changes in Open Budget Index, 2015-2017: European Union and Beyond**

Country	Transparency – Open Budget Index		
	2015	2017	Change
Bulgaria	65	66	0
Croatia	53	57	4
Czech Republic	69	61	-7
France	76	74	-2
Germany	71	69	-2
Hungary	49	46	-3
Italy	73	73	1
Poland	64	59	-5
Portugal	64	66	1
Romania	75	75	0
Slovakia	57	59	2
Slovenia	68	69	2
Spain	58	54	-4
Sweden	87	87	0
United Kingdom	75	74	-1
<b>European Union Average</b>	<b>67</b>	<b>66</b>	<b>-1</b>
Albania	38	50	11
Azerbaijan	51	34	-17
Bosnia and Herzegovina	43	35	-9
Georgia	66	82	15
Kazakhstan	51	53	2
Macedonia	35	37	2
Moldova	n/a	58	n/a
Norway	84	85	1
Russia	74	72	-2
Serbia	47	43	-4
Turkey	44	58	14
Ukraine	46	54	9
<b>Beyond EU Average</b>	<b>53</b>	<b>55</b>	<b>2</b>
<b>Average for European Countries in Both Rounds</b>	<b>61</b>	<b>61</b>	<b>0</b>

Countries in blue scored above 60 in 2017, the IBP cutoff for sufficient transparency.

The global stall in progress in 2017 is of particular concern in light of the overall low level of budget transparency around the world. With global average scores for the 102 countries surveyed in both rounds at just 43 out of 100, it is too early for progress to plateau. The picture is no more encouraging when we add back in the 13 new countries IBP surveyed in 2017: the global average is 42 for the full sample.

Only 26 of 115 countries surveyed score above a 60 out of 100 (“sufficient transparency”), which is considered the minimum score to permit meaningful deliberation about the budget between the executive, the legislature, supreme audit institutions and the public. The European countries highlighted in blue in Table 1 are those that score above a 60 on the OBS in 2017; just under half of the countries surveyed in the region meet the threshold for “sufficient” transparency.

Looking at the eight key budget documents, the first thing to note is that every country in Europe (both in and outside of the EU), publishes an Executive’s Budget Proposal, an Enacted Budget and an Audit Report. On the other hand, more than half of the countries surveyed in Europe (16 of 27) fail to publish a Mid-Year Review, and 12 do not publish a Pre-Budget Statement. Ten still do not publish a Citizens Budget either. Mid-Year Reviews are important because they ensure that changes to the budget during the year are properly scrutinized; both Pre-Budget Statements and Citizens Budgets open the budget process and can

**Mid-Year Reviews are important because they ensure that changes to the budget during the year are properly scrutinized**



## Guide to Transparency in Government Budget Reports:

*Why are Budget Reports Important,  
and What Should They Include?*

Edited by Vivek Ramkumar and Isaac Shapiro



**IBP** INTERNATIONAL BUDGET PARTNERSHIP  
FOR PEOPLE, PROGRESS AND PLANET

help legislatures and citizens to engage with the big decisions in the budget.

Within the European Union, those countries that do publish key budget documents achieve sufficient transparency (above 60) on all documents other than the Citizens Budget. Outside of the EU, the Executive's Budget Proposal and the Citizens Budget both fall below this threshold. Unlike in other parts of the world, European countries do not uniformly score higher on formulation documents than implementation documents. But both within and outside of the EU, both Year-End Reports and Audit Reports fall below the 80 mark, and can be made more comprehensive.

The OBS 2017 also finds limited oversight around the world. The survey focuses on oversight practices, which are the precursors for meaningful accountability. For example, it looks at the extent to which legislatures amend the budget before approval, and review implementation and audit reports during and after budget execution. In the case of auditors, it looks at, among other things, the extent to which auditors are independent and free to audit whatever they wish. The 2017 survey also looks at "independent fiscal institutions" for the first time. OBS 2017 assesses whether such agencies (e.g., parliamentary budget offices, fiscal councils) exist, are independent, and whether they produce macroeconomic forecasts or policy costings.

Legislatures exercise more oversight during budget formulation and approval than they

do during implementation. For example, more than half of all legislatures surveyed used their amendment powers to modify the executive's budget proposal. However, in more than half of countries surveyed, executives can move funds between administrative units without legislative approval. This kind of discretion during budget implementation can undermine the oversight provided by the legislature earlier in the budget process.

The overall score for audit oversight practices globally is significantly higher than for legislative oversight practices. Only 28 percent of the 115 countries surveyed have adequate legislative oversight practices (an average score above 60 on those measures), while 65 percent of countries surveyed have adequate audit oversight practices. In Europe, most countries follow the global pattern of scoring more highly on audit than legislative practice. This is true for both the European Union and non-EU countries on average, but it is not universally true, as can be seen in Table 2 below.

Globally, there are 28 countries with an independent fiscal institution, and 18 of these were considered to be fully independent and well-resourced. Half of these institutions are located in Europe, mainly within the European Union.

**Too often executives can move funds between administrative units without legislative approval. This kind of discretion during budget implementation can undermine the oversight provided by the legislature earlier in the budget process**



**Table 2. Oversight Practices in Europe, OBS 2017**

<b>Country</b>	<b>Legislature</b>	<b>SAI</b>	<b>Has IFI?</b>
Bulgaria	53	72	Yes
Croatia	45	89	Yes
Czech Republic	81	83	No
France	89	78	Yes
Germany	86	95	Yes
Hungary	50	95	Yes
Italy	78	78	Yes
Poland	75	95	No
Portugal	72	72	Yes
Romania	58	72	Yes
Slovakia	47	72	Yes
Slovenia	78	83	No
Spain	47	72	Yes
Sweden	81	95	Yes
United Kingdom	50	89	Yes
<b>European Union Average</b>	<b>66</b>	<b>83</b>	
Albania	67	72	No
Azerbaijan	53	83	No
Bosnia and Herzegovina	50	95	No
Georgia	67	89	Yes
Kazakhstan	69	50	No
Macedonia	45	78	No
Moldova	47	83	No
Norway	92	89	No
Russia	75	83	No
Serbia	53	83	Yes
Turkey	50	78	No
Ukraine	86	78	No
<b>Beyond EU Average</b>	<b>63</b>	<b>80</b>	

The final part of the survey assesses opportunities for formal public participation in the budget process. The survey looks for participation by executives, legislatures and auditors throughout the budget process. For example, it asks whether executives consult with the public during formulation, but also whether the legislature engages with the public during its review of audit reports, and whether the auditor engages with the public around the audit agenda or during audit investigations.

Participation is important because transparency and oversight institutions are not sufficient to ensure robust democratic representation. Citizens have a right to know how their money is used, but also to give their views on how it should be used. Formal participation structures are necessary because informal participation does not ensure that the voices of marginalized groups will be heard.

The global score for public participation is extremely low: just 12 out of 100. No country scores above 60 on this measure, and only four countries score above 40: Australia, New Zealand, Philippines, and the United Kingdom. Outside of the UK, then, formal budget participation remains extremely low in Europe.

There are some good practices around the world in the realm of participation, however. Brazil has traditionally used national public policy councils to help citizens provide input into and oversight over sector budgets, giving them authority to approve budget proposals and in-year reports. In South Korea, there is a Waste

**Citizens have a right to know how their money is used, but also to give their views on how it should be used**



2006

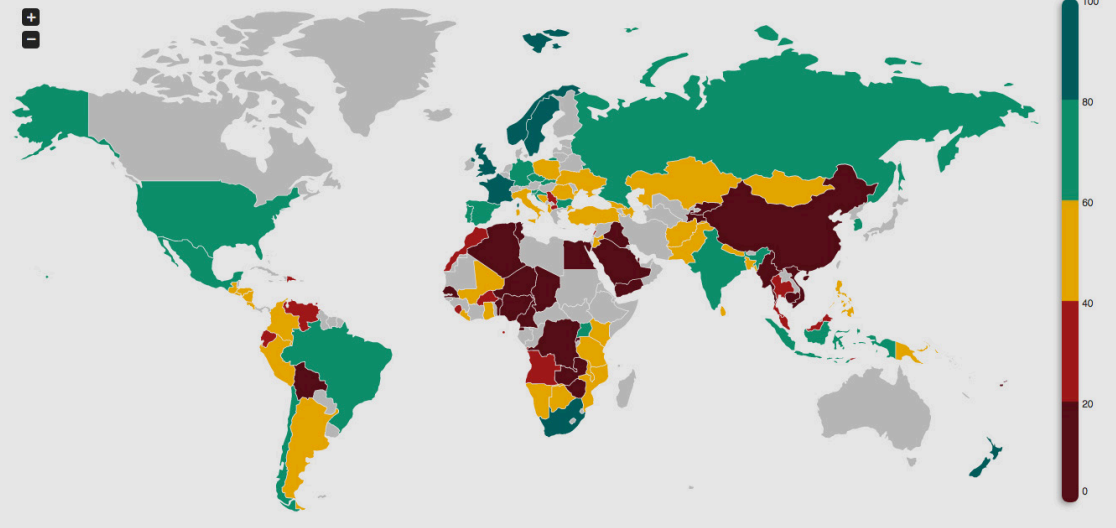
2008

2010

2012

2015

2017



In South Korea, there is a Waste Reporting Center that provides financial incentives to citizens who identify wasteful government spending. This kind of mechanisms allow people to get involved in various stages of the budget process and build bridges between citizens and government

Reporting Center that provides financial incentives to citizens who identify wasteful government spending. In Latin America, several countries provide opportunities for citizens to help determine the audit agenda of the Supreme Audit Institution. These mechanisms allow citizens to get involved in various stages of the budget process and build bridges between citizens and government.

## Discussion

Why is progress toward greater budget transparency grinding to a halt at the global level? It is important to note that this decline is real, but not universal. Various countries, including a few mentioned earlier in this article (e.g., Georgia) have continued to make progress. Nevertheless, stalling global progress is consistent with other trends around the globe: democratic recession, declining adherence to rule of



law, attacks on media freedom and closing civic space. Declining OBS scores are to some extent part of this global trend away from open government.

If there is one takeaway from these findings, it is that various stakeholders – donors, civil society, government champions, private sector – interested in greater openness in public finances must work together toward institutionalizing that openness, and shy away from quick wins that can easily be reversed. Only deeper changes in budget practices and norms can survive the caprices of politics, changes in leadership, or “the slings and arrows of outrageous fortune.”

Beyond transparency, Europeans should reflect on the participation data in this round of the survey. This data suggests that most countries lack formal opportunities to participate that ensure that marginalized groups, often the most dependent on public services, are able to voice their concerns in the budget process. While many European democracies have rich histories of informal citizen engagement, recent events in Europe suggest that many feel excluded from democratic institutions that appear not to represent ordinary people as well as they once did. The lack of commitment to producing citizen-friendly budgets is also consistent with this perception. This may be an area where Europe has something to learn from other parts of the world that are experimenting with new ways of bringing the public into the budget process. ■

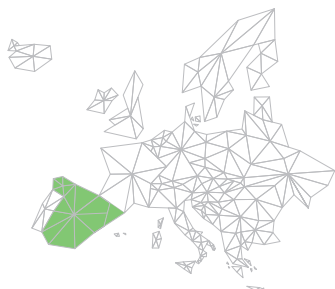
**The decline in budget transparency is consistent with other trends around the globe: democratic recession, declining adherence to rule of law, attacks on media freedom and closing civic space**

**Recent events in Europe suggest that many feel excluded from democratic institutions that appear not to represent ordinary people as well as they once did. The lack of commitment to producing citizen-friendly budgets is also consistent with this perception**



# The role of independent fiscal authorities in fiscal discipline and in the improvement of public finances

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Analysis Division.  
Independent Authority  
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(AIReF) (Spain)



## **Abstract**

*The purpose of this article is to provide information on the Independent Fiscal Institutions (IFIs), whose progress in the years following the crisis have been bound to the need to strengthen both the European fiscal framework and that of the member states. First, we will follow the milestones that led to the establishment of IFIs as a key element of strengthening national responsibility or “ownership”. Next, we will attempt to identify the main reasons that justify their existence, beyond the supervision of a fiscal discipline rooted in compliance with annual rules. Finally, we will focus on one of the central aims of the IFIs, which is their medium-term orientation towards which forthcoming advances in budgeting need to be directed.*



## Why an IFI after the crisis?

The recent economic crisis has opened a debate on the need to reform many aspects in the economic, social, institutional and political context in order to learn from mistakes and be better prepared to handle future crises. The fiscal frameworks have not eluded this period of reflection and their effectiveness and even their existence have been questioned.

In the European Union (EU), the functioning of the Stability and Growth Pact (SGP) for a decade before the crisis and the effects derived from it highlighted the need to strengthen the governance of the EU and placed financial sustainability as the central target of fiscal policy.

In this context, subsequent modifications were made to the SGP that led to the current fiscal governance of the EU.

The first legislative reform package of the SGP was approved in 2011 and consists of five Regulations and one Directive (the Six-Pack). As part of this first reform, Directive 2011/85/EU introduced the IFIs into the European fiscal framework. At that time, it was considered necessary to reinforce national responsibility, promoting the idea of “ownership”, that is, that the





**The Independent Fiscal Institutions (IFIs) are national institutions, more familiar with the institutional and social scenario, and they facilitate both obtaining information and the translation of results**

member states make their own fiscal discipline targets, so that there are national rules specific to each country and that the enforcement of compliance with these rules is based on reliable analyses carried out by independent national bodies or, at least, those with functional autonomy from governments.

The application of this idea of “ownership” has the advantage that the rules are considered as belonging to the member state and, therefore, are more readily accepted than those that are seen as alien and imposed from outside. In addition, with regards to IFIs, the fact that these institutions are national means that there is more familiarity with the institutional and social scenario, which, in principle, facilitates both obtaining information and the translation of results, and accessing communication channels more directly in order to disseminate the benefits of sustainability to political parties and the public.

In 2012, with the signing of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union<sup>1</sup> the signatory countries (all of the EU except the Czech Republic and the United Kingdom) committed to having an IFI at the national level with the function of monitoring compliance with fiscal rules and assessing the underlying macroeconomic and budgetary forecasts.

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1. Title III of this Treaty is called the Fiscal Compact and includes commitments regarding fiscal policy.

In 2013, the SGP was reformed with the approval of a second legislative package composed of two regulations (the Two-Pack). As part of this reform, Regulation 473/2013 surmised formalising the role of the IFIs for the countries in the European Monetary Union (EMU) by assigning specific tasks, such as making or endorsing economic forecasts, monitoring the rules and reporting on risks of deviation.

As a result of this new framework, eleven new IFIs were created, including the Spanish IFI, so that currently all EU member countries have an IFI except Poland and the Czech Republic.

### Fiscal Councils Around the World, 2016



Source: IMF.





**The process of creating AIReF was precipitated as a result of the fiscal conditions imposed to Spain by the granting of financial assistance received from the European Stability Mechanism in 2012**

The creation of the Spanish IFI, called the Independent Authority for Fiscal Responsibility (AIReF), was the result of compliance with the commitments assumed by our country within the EU. This obligation arose from the application of the European Union's fiscal governance reformed by the aforementioned Directive 2011/85/EU and Regulation 473/2013, as well as the signing of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The process of creating AIReF was precipitated as a result of the fiscal conditions imposed by the granting of financial assistance received from the European Stability Mechanism for the recapitalisation of financial institutions, as agreed in the Memorandum of Understanding (MoU) of 20 July, 2012.<sup>2</sup> One of these conditions was, indeed, the requirement for Spain to establish an independent budgetary entity that would deal with analysis and advisory activities and would supervise fiscal policy.

Finally, in November 2013, AIReF was legally incorporated and became operational in 2014.

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2. Memorandum of understanding on financial sector policy conditions of July 20, 2012 signed by Agreement on July 23, 2012.

## Fiscal discipline: The only reason for IFIs to exist?

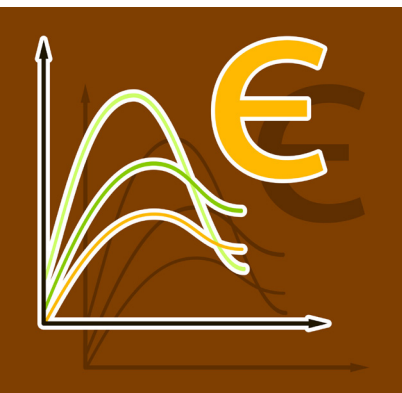
In this reformed EU fiscal governance, the IFIs have a leading role in monitoring fiscal rules, and are trusted to carry out reliable analyses that support the evaluation of their compliance. Given that most of the European IFIs were created on the occasion of the crisis, it is still too early to assess whether their existence has had a clear effect on fiscal discipline. However, a study by the International Monetary Fund<sup>3</sup> in 2013 can be used as a reference. This analyses the relationship between the IFIs and the fiscal outcomes measured in terms of primary balance, concluding that the correlation is very significant if the IFI considered has a high level of independence, a high media impact and has monitoring of compliance with fiscal rules and evaluating or preparing macroeconomic forecasts among its functions. The difficulties in isolating the problem of reverse causality and the lack of data mean that the results have to be taken with caution. In this sense Debrun and Kumar<sup>4</sup> (2007) provide evidence that countries with IFIs have more sound public accounts, although the causal relationship is not clear since they are the countries with the highest budgetary rigour, those most inclined to create IFIs and to establish more stringent fiscal rules.

**IFIs have a leading role in monitoring fiscal rules but, as far as they were created on the occasion of the crisis, it is still too early to assess whether their existence has had a clear effect on fiscal discipline**

3. <https://www.imf.org/external/np/pp/eng/2013/071613.pdf>

4. <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/The-Discipline-Enhancing-Role-of-Fiscal-Institutions-Theory-and-Empirical-Evidence-21097>





**IFIs should contribute to making financial sustainability the central target of fiscal policy, which requires medium-term planning**

Despite these inconclusive results, one must bear in mind that the strengthening of the fiscal framework is not only a problem of fiscal discipline represented by rules defined on an annual basis, but also involves many other aspects that affect its credibility and effectiveness, the pillars upon which its strength rests.

Some of the arguments that support the need for IFIs are governments' tendency towards increasing deficit and debt in a policy that is often procyclical and linked to the electoral cycle; optimism in the macroeconomic and budgetary forecasts; asymmetry in the information that both citizens and voters, and governments and administration possess; the need for a mediator between the different levels of government in decentralised countries; and the short-term orientation of fiscal policy decisions.

In line with the SGP, IFIs should contribute to making financial sustainability the central target of fiscal policy, which requires medium-term planning in which annual compliance with tax rules is an instrument and not an aim itself. In this sense, it is no coincidence that Directive 2011/85/EU, introducing the Independent Fiscal Institutions, is entitled *Directive on requirements for budgetary frameworks of the Member States*.

### **From the short to the medium term**

Directive 2011/85/EU<sup>5</sup> established the obligation to draw up "medium-term budgetary plans", considering that national



budget planning can only be consistent with the preventive and corrective components of the SGP if it adopts a multi-year perspective and pursues the achievement of budgetary targets in the medium term in particular.

Subsequently, EU Regulation 473/2013 completed EU Regulation 1175/2011 in the establishment of a common calendar for the countries in the eurozone (Stability Programme Update, before April 30 and Budgetary Plan, before mid-October) and attempted to strengthen these budgetary plans by establishing the obligation, in Article 4, to present fiscal frameworks in the medium term.

However, the impulse that both regulations could have given to the development of medium-term frameworks, still absent or in the very early stages in many countries, has seen its potential reduced by allowing the Stability Programme Update (SPU) to assume this role. In fact, in practice there is a complete disconnection between the medium-term fiscal framework and the budget, a document in which commitments are made annually on how much of the available resources will be spent, when and on what. The different subjective definitions of the agencies included in both scopes, the aggregate nature of the SPU data referring to the General Government, and the differences between budgetary accounting and national accounting make any reconciliation impossible.

**National budget planning can only be consistent with the preventive and corrective components of the Stability and Growth Pact if it adopts a multi-year perspective**

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5. <https://www.boe.es/doue/2011/306/L00041-00047.pdf>



In practice there is a complete disconnection between the medium-term fiscal framework and the budget, a document in which commitments are made annually. It is essential to make progress in this area

It is essential to make progress in this area, since framing annual budgeting in a multi-year programme has important advantages:

1. It reinforces the countercyclical function of fiscal policy by allowing the revenue and expenditure forecast to be adjusted to the evolution of the economy.
2. It reduces uncertainty regarding fiscal policy and the allocation of resources in the medium term.
3. It facilitates fiscal sustainability and strategic planning as it allows us to observe the future impact of current policies and margins by taking fiscal rules into account.
4. It prevents certain risks of fiscal illusion.

Aware of these benefits, the Network of EU Independent Fiscal Institutions, created in September 2015, published a document<sup>6</sup> in April 2016 identifying the elements that a medium-term budgetary framework must contain:

<b>Requirements of medium-term budget frameworks</b>	
<b>Backed by institutions</b>	Political support
<b>Government commitment at the beginning of each legislature</b>	Covers the electoral cycle and/or the complete trajectory towards a fiscal target
<b>Inclusive of the "public"</b>	Has a broad coverage of the public sector and levels of administration, as well as revenue and expenditure categories
<b>Consistent</b>	Ensures consistency between numerical rules and annual budgetary documents
<b>Based on measures</b>	Is based on identifiable and quantifiable measures
<b>Balanced</b>	Presents a fair balance between being a flexible and binding framework
<b>Supervised by an IFI</b>	Is subject to monitoring by an IFI

6. [http://www.euifis.eu/download2/mtbf\\_final.pdf](http://www.euifis.eu/download2/mtbf_final.pdf)

## Conclusions

The Independent Fiscal Institutions have great challenges ahead, including demonstrating that their presence improves the design, functioning and enforceability of a fiscal framework that needs to be effective in crisis situations, but also in periods of economic growth. Despite the difficulty of achieving this target, it is likely that the greatest challenge will be ensuring that the benefits of the sustainability of public finances, as a prerequisite for the maintenance of a state of well-being, are internalized by governments and, above all, by the public. The vulnerability of countries associated with situations of high indebtedness requires a change in the short to medium term focus, with multi-year planning from which the budget originates and in which the targets pursued and their impact are clearly identified, thus facilitating their monitoring and evaluation. ■



**The greatest challenge will be ensuring that the benefits of the sustainability of public finances are internalized by governments and, above all, by the public**



# Interview with Alexander Heichlinger,

Co-founder and  
Chairman of the  
European City  
Economic & Financial  
Governance (CEFG)  
Group. European  
Institute of Public  
Administration (EIPA),  
Barcelona

Alexander Heichlinger is a Senior Faculty Member (Expert) at the European Institute of Public Administration's (EIPA) Centre in Barcelona. He is co-founder and Chairman of the **European City Economic & Financial Governance Group** (CEFG Group) which was officially launched in 2014. Over more than 20 years at EIPA he has managed and delivered numerous assignments for public sector organizations from across Europe as well as for European institutions and other international organizations, including managing the EPSA Awards over three editions and leading the City Excellence Network/Cloud, resulting in a widely-read **publication**.



“Financial directors often work in isolation, they produce extremely important information but it’s not understandable for others. We have to find a common language so everybody can have clear access to reliable financial information, in a very unbundled and easily understandable way”

# ESCOLA D'ADMINISTRACIÓ PÚBLICA DE CATALUNYA

Capacitar  
persones per servir  
les persones



eapc

“Literacy and education may overcome barriers like a lack of understanding of the budget process to make citizens and politicians more aware, more educated and more trained in what these financial measures mean”

“Generally speaking open budgets are rarely consulted. Often the most accessible financial information is simply the salary of the mayor. So yes, it is a trend, it will stay but the cost and the benefits need to be very carefully considered by city governments”

“A lot of cities have other entities which belong to the city, public and private companies. It is a big challenge to manage them, to make budgetary planning as a whole with the different accounting systems and the different legal forms. How to optimize such group management is one of our big issues”

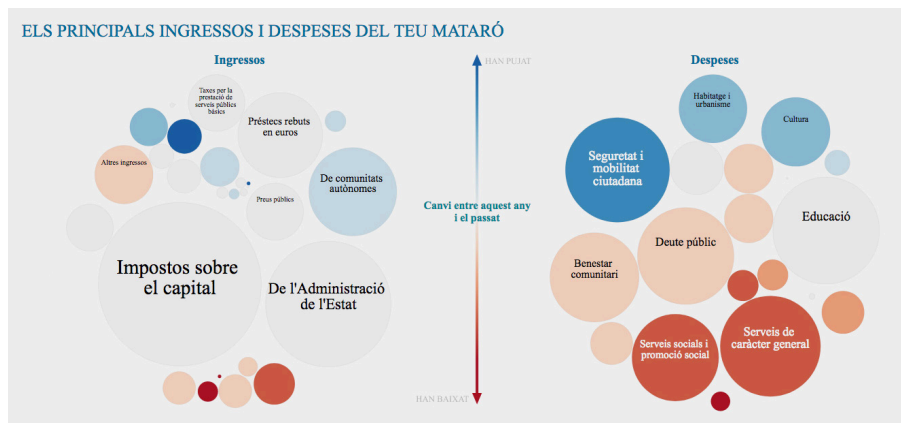
“Accrual accounting may help financial directors, policy makers or public sector auditors. It has advantages in comparing fiscal transparency or fiscal stability and shows the economic value that policies implemented at the city level render to their citizens”



# Good practices

## Budgetary data visualization in Mataró (Catalonia)

The **City Council of Mataró** (a city with more than 126,000 inhabitants, to the north of Barcelona) has had a **new tool** since the end of 2017 for consulting local budgets in an easy and understandable way. At the moment it offers updated information on the current budget and budgets since 2010. The objective is to offer maximum transparency. The portal is part of the Good Governance, Ethics and Transparency Committee that has also promoted the **Debt Observatory**, an informative space on the municipal website that shows the state of debt of the City Council and related companies. The new resource provides information in a simple and pedagogical way on what the budget is, how it is produced, how it is distributed, what the status is of each section, how the cost per inhabitant has evolved or what the level of indebtedness of the council is, among others. In addition, it allows the viewing of revenue, expenses and other budget indicators with the possibility of comparing data with previous years and other municipalities. An explanatory guide with all the basics is also included. Additionally, users may look at their contribution to the municipal budget through the payment of taxes and contributions, as well as the actions that are financed with their money.



Main areas of revenue and expenditure in the city of Mataró.

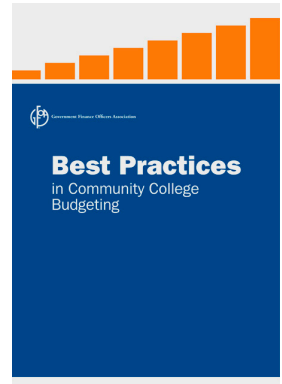
## Activity-Based Costing in the Barcelona City Council (Catalonia)

The **Barcelona City Council** is one of the first in Spain to incorporate the **Activity-Based Costing (ABC) model** as a system for calculating the costs of public services. This includes the direct costs of each final activity and the indirect costs from the structure, thereby obtaining the indicators of unit costs of the different municipal facilities and services. The objective is to move from a “culture of spending” to a “cost culture” that puts the focus on productivity, efficiency and quality. In addition to responding to legal requirements, the ABC model allows for improved public management, obtaining a more rational executive budget where decision-making is carried out based on accurate information. It also makes it easier for citizens to have detailed access to how public money is managed, in accordance with the principle of transparency and open government. The main processes or units of cost identified are: urban planning, environment, infrastructure and urban coordination, housing, quality of life, sports, mobility, local police, fire services, education, culture, and economic and district promotion.



## Best practices on public financial management (United States)

The **Government Finance Officers Association** (GFOA) represents public finance officials from the United States and Canada. It numbers more than 19,300 members: federal, state/provincial and local finance officials involved in planning, financing and implementing thousands of governmental operations. GFOA's mission is to promote excellence in state and local government financial management. One of the most useful resources that we can find on its website is the **GFOA Best Practices**: this identifies specific policies and procedures that contribute to improved government management. The aim is to promote and facilitate positive change or recognize excellence rather than merely to codify current accepted practice. Best practices are applicable to all governments (both large and small). They are classified in nine main topics: financial policies, accounting and financial reporting, budgeting and financial planning, capital planning/infrastructure, debt management, financial management, pension and benefit administration, technology, and treasury and investment management. Most of them also have several subtopics and there is a complete list in alphabetical order available. Moreover, there are some GFOA Advisories which help to identify specific policies and procedures necessary to minimize a government's exposure to potential loss in connection with its financial management activities, with specific recommendations on how to avoid risk or loss, either proactively or retroactively, in response to current events or trends.





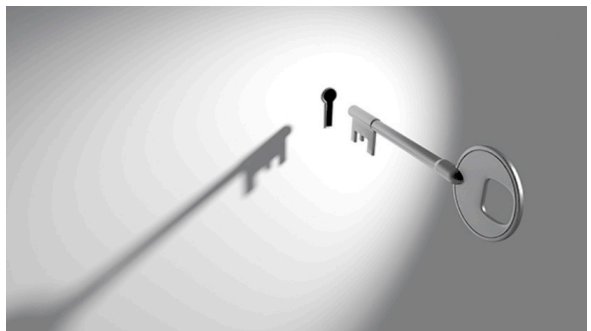
## **Medium–Term Budgetary Framework (Ireland)**

The **Department of Finance** of the Government of **Ireland** maintains a **Medium–Term Budgetary Framework (MTBF)** which acts as a procedural manual, and provides an overview of the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies. It is a living document that is revised as appropriate but which was originally published in December 2013. MTBF is required by the Budgetary Frameworks Directive (Council Directive 2011/85/EU). It contains information on the planning process underlying the two annual economic and fiscal policy documents, namely the Stability Programme Update and the Budget. These are the key medium–term fiscal strategy documents in which Ireland sets out its official macroeconomic and budgetary forecasts for the coming years. The MTBF includes a background underlying EU fiscal architecture, the main Irish fiscal outputs, an overview of the annual budgetary process, forecasting methodology, fiscal performance monitoring and fiscal rules governing Ireland’s fiscal planning and implementation. It also offers several annexes, such as a protocol for the control and monitoring of local authorities contribution to the General Government Balance, a glossary of terms, and three emergency procedures and corresponding actions to be taken in case of necessity (correction plan under budgetary rule, excessive deficit procedure and financial assistance).



## Open municipal budgets (Catalonia)

The Secretariat of Transparency and Open Government of the Catalan Government has put into operation a new interactive and dynamic tool that allows the viewing and comparison of the budgets of all the municipalities of Catalonia. The tool was presented at the II Digital Government Congress held in Barcelona in January 2017 and collects all the information related to the budgets of the Catalan municipalities in a **section** located in the **Catalan Transparency Portal**. The search engine has three sections that allow for the comparison of up to three municipalities by filtering sections and subsections, for analysing the position of a specific item of the different municipalities according to the total expenditure or spending per inhabitant, and for checking the percentage of total expenditure, or view on a map the different main indicators (cost per inhabitant, total expenditure, difference between execution and budget, inhabitants and current debt), as well as visualizing each one of the sections. This new section of the Catalan Transparency Portal is a step in the fulfilment of the obligations established by **Law 19/2014 of 29 December pertaining to transparency, access to public information and good governance**. After an initial stage in which all data was made public in an open format, the Secretariat of Transparency and Open Government is offering the tool to citizens when explaining municipal public resources in order to improve the quality of debate concerning them.



# New trends



## Priority Based Budgeting

Priority Based Budgeting (PBB) is a flexible budgeting system that evaluates the goals of communities and focuses on funding objectives and activities that support these end results. This process provides a mechanism through which an organization can make better short-term resource allocation decisions based on the relative priority of the various programs and services. It also provides a new way to link budget decisions to the strategic results and outcomes that the organization wishes to achieve for the long term. For example, the **International City/County Management Association (ICMA)** has established "Fiscal Health and Wellness through Priority Based Budgeting" from the **Center for Priority Based Budgeting (CPBB)** as a **leading practice for local governments**. The CPBB offers professional expertise, analytical skills, and diagnostic tools needed to help institutions become efficient and effective in their financial strategies and resulting service delivery. Its objectives are to help communities: 1) Diagnose the root cause of fiscal needs and challenges; 2) Identify effective options to enhance financial strategies; 3) Engage in determining what the community values highly and expects; 4) Establish clearly defined goals for the organization; 5) Prioritize resource allocation to the most valuable programs and services; 6) Provide decision makers with better information about the impacts of their decisions; and 7) Develop the tools needed to see things more clearly.





## Budget engagement and financial transparency

Public engagement on the budget is increasingly common in local government, driven by citizen expectations for transparency, the opportunity to provide input and the need for public leaders to have informed two-way communication on important financial issues. This involves identifying goals, developing strategy, selecting and developing tools, implementation, collecting and analysing results and communicating results to engage the public on financial issues. The common aim is to demonstrate ongoing accountability and an easy way to institutionalize budget engagement and transparency. One example of this new tendency is **Balancing Act**, a tool to improve public participation during the budget process. In fact, it is an interactive budget simulator which is easy to adapt and easy to understand for governmental entities and other organizations to conduct high quality online – and face-to-face – budget engagement. It was created by Engaged Public, a public policy consulting firm founded in 1998 in the USA. Balancing Act is an accessible, comprehensive yet simple way to demonstrate financial transparency and accountability; it helps to create understanding and support for tough decisions that need to be made and increases public participation and trust. Interactive simulations provide an easy way to obtain informed input on priorities and stimulate creative ideas to improve programmes. One of the solutions that this platform offers is a taxpayer receipt to estimate taxes paid and then show individuals where their tax money goes. This is always relevant, especially at strategic moments such as the start of fiscal years.

YOUR CITY AND COUNTY OF DENVER TAX RECEIPT	
<b>Affordable Housing</b>	\$1.89
Dedicated Affordable Housing Property Tax Mill	\$0.00
Housing Investment Fund Transfer	\$0.81
Office of Housing and Opportunities for People Everywhere (HOPE)	\$0.18
Social Impact Bond	\$0.90
<b>Capital Projects</b>	\$13.50
Bond Principal and Interest Property Tax Mill	\$0.00
Capital Improvement Projects	\$13.50
Improvement and Maintenance Property Tax Mills	\$0.00
<b>Community Planning and Development</b>	\$8.23
Board of Adjustment for Zoning Appeals	\$0.10
Planning, Permitting, Inspections and Administration of Community Planning & Development Dept.	\$8.13
<b>Courts/Legal</b>	\$15.79
City Attorney	\$8.71
County Court & Municipal Public Defender	\$7.08
<b>Economic Development</b>	\$3.52
Economic Development	\$2.14
Excise and Licenses	\$1.38
<b>Finance</b>	\$33.31
Contingency	\$7.33
Finance/Payments for Public Buildings	\$25.98
<b>Governing</b>	\$2.16
City Council	\$1.70
Mayor's Office	\$0.46
<b>TOTAL:</b>	<b>\$76.42</b>



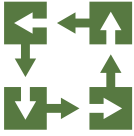


## Citizen budgets

A citizen budget is a simpler, less technical version of a government's budget specifically designed to present key information to the public. They are designed to present public finance information to a general audience, typically written in accessible language and incorporating visual elements to help non-specialist readers understand the information. Governments should ensure citizens have a firm understanding of the many ways the budget affects their lives. By presenting budget information in a more accessible format than most standard budget documents, citizens' budgets foster greater understanding of how public money is being managed. They should be a gateway to more information, introducing citizens and civil society to the knowledge they need to participate as informed stakeholders. The **International Budget Partnership** (IBP) collaborates with civil society around the world to analyse and influence public budgets in order to reduce poverty and improve the quality of governance. On its website there are several useful resources for governments including **citizen budgets** with what kind of information they should include, the process of developing one, different examples from around the world (format examples, comprehensive reports, graphics and data visualisation, and illustrated examples) and ***The Power of Making it Simple: A Government Guide to Developing Citizens Budgets*** available in English, French, Spanish and Portuguese.



This graphic is featured in the Dominican Republic's 2015 Citizens Budget.



## PEFA methodology

**PEFA** is a methodology for assessing public financial management performance. It identifies 94 characteristics (dimensions) across 31 key components of public financial management (indicators) in seven broad areas of activity (pillars). The PEFA programme provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. The seven pillars of PFM performance identified are: 1) budget reliability; 2) transparency of public finances; 3) management of assets and liabilities; 4) policy-based fiscal strategy and budgeting; 5) predictability and control in budget execution; 6) accounting and reporting; and 7) external scrutiny and auditing. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time. The PEFA programme builds on the principles of the Strengthened Approach to Supporting Public Financial Management Report which is embodied in three components: a country-led agenda, a coordinated program of support and a shared information pool on public financial management. The goals of PEFA are to strengthen capacities to assess the status of country PFM systems and develop a practical sequence of reform and capacity development actions. The European Commission, the International Monetary Fund and the World Bank Group are some of the PEFA Partners.



## Commitment and fiscal morality

“Fiscal morality” or “fiscal conscience” includes the willingness to pay taxes beyond strictly economic or instrumental considerations, as well as the level of tolerance of or justification for tax fraud. It is the intrinsic motivation or inner will of citizens regarding the fulfilment of their tax obligations. How can the fiscal morality of citizens be improved so that they understand the benefits and positive repercussions of taxes and contributions on public services or the welfare state? Is it possible to fight against the underground economy or the evasion of taxes by appealing to the joint responsibility of the population? The publication of the Public Administration School of Catalonia’s *Transparency, Publicity, Accountability and Open Government in a 21st Century Tax Administration* (in Catalan) tries to answer these questions among others. This is a study written by the Group of Analytical Sociology and Institutional Design at the Universitat Autònoma of Barcelona. The publication analyses the effects of tax transparency on the perceptions of citizens and, therefore, on their fiscal morality. The authors have found a positive and significant correlation between the perceptions that citizens have about various indicators of transparency and good governance, on the one hand, and their willingness to comply with fiscal obligations, on the other. The research was presented at the end of 2017 within the framework of the “**Workshop on transparency and fiscal commitment. Towards a shared fiscal morality**” co-organized with the **Catalan Tax Agency**. The session was attended by experts from Sweden and Norway: in the Nordic countries, the legitimacy of fiscal systems is based on the perception of equity that they give to citizens, something linked to cultural aspects in these countries, and so the administrations place great emphasis on communicating their tax policies.

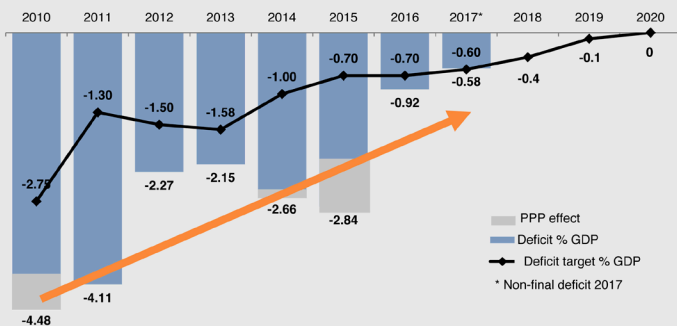


# Newsflash

## Spending Reviews in Catalonia

In March of 2018, the **Department of the Vice-presidency and of the Economy and Finance** of the Catalan Government organized a day on the revision of the expenditure with the subtitle “Towards the generation of fiscal spaces and greater social value of the expenditure in a context of budgetary constraint”. The session held at the Public Administration School of Catalonia analysed the budget context of the Catalan Administration, the model of spending review, the lessons learned from the experience of the first pilot program and the proposed work plan for 2018. For the occasion, the General Directorate of Budgets designed a broad presentation available online in English that collects a great deal of economic data and information on fiscal rules, the rules of expenditure, the strategy behind them, their goals or their implementation on an international scale.

### Balancing the Budget after the recession



Data: General Intervention Board of the State Administration (IGAE) and General Intervention of the Government of Catalonia. Total amounts are computed in national accounting in European System of National and Regional Accounts (ESA) terms.



## **European Fiscal Monitor**

The **Network of EU Independent Fiscal Institutions** is a voluntary and inclusive institution open to all independent fiscal oversight bodies operating in the EU. It provides a platform to exchange views, expertise and pool resources in areas of common concern. One of its publications is the **European Fiscal Monitor** published twice a year with contributions from individual EU IFIs (or fiscal councils) on the main events and challenges in the economies, public finances and fiscal frameworks of EU member states. The aim of the publication is to provide the IFIs with a platform to convey their key messages to an international audience interested in national budgetary matters. The latest issue (January 2018) includes approaches to EU economies with “solid growth rates”, fiscal stances “estimated to turn procyclical in several countries”, and the extent of medium-term orientation in budgeting across EU countries, among other contents.



**EU INDEPENDENT  
FISCAL INSTITUTIONS**



## The benefits of the tax on sugared drinks

A recent **study** by the Universitat Pompeu Fabra and the University of Barcelona has shown that the tax on bottled and canned sugared drinks in Catalonia has reduced consumption by 22% since its entry into force just one year ago. This represents eating 107 calories less per person per week. According to the researchers, the tax has proven to be very effective when compared to similar practices in other countries. They emphasize the extra-fiscal nature of the tax, since it does not intend to increase public resources but to avoid negative externalities linked to the consumption of products harmful to public health. Although a fiscal policy, it is also a preventive policy since it encourages healthy behaviour among the population. The impact of this tax presents evidence that the Catalan Administration has been able to improve habits among its citizens through its fiscal policy, in this case by focusing on the price of drinks with excess sugar. This constitutes a transformative policy that forces the food industry to look for alternatives that are less harmful to health and which, therefore, have less impact on health expenditure.



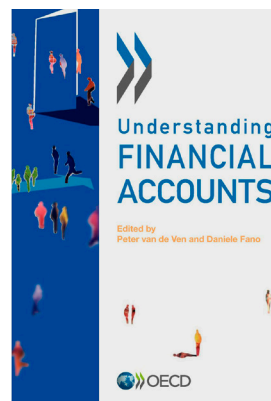
## **Gramas, the local currency of Santa Coloma de Gramenet**

The City Council of Santa Coloma de Gramenet (a city of more than 117,000 inhabitants, next to Barcelona) began to circulate a local currency called the **Gramas** at the beginning of 2017 through the payment of municipal subsidies to organizations and associations. It therefore became the first local Administration in Spain to channel public spending through the use of its own currency. A year later it has more than five hundred users. The system is based on a platform on the Internet and in mobile devices to pay for goods, products and services in establishments and companies adhering to the Social Trade Circuit, created expressly for this purpose. The initiative is part of the European **Digipay4Growth** project, which also includes Bristol (United Kingdom) and Sardinia (Italy). The objective is to promote greater circulation of money within the city and to become a stimulus for companies and entities in Santa Coloma de Gramenet. Municipalities such as Barcelona and Cambrils (Catalonia), and also those from other areas of Spain, have expressed an interest in implementing the same model. By the end of 2018, the City Council expects that municipal public employees may voluntarily receive part of their remuneration in *Gramas* and are working so that by 2019 the use of the local currency can be extended to the public.



## **Understanding Financial Accounts**

**Understanding Financial Accounts**, a publication by the OECD, seeks to show how a range of questions on financial developments can be answered with the framework of financial accounts and balance sheets, by providing non-technical explanations illustrated with practical examples: What are the basic principles, concepts and definitions used for this framework which is part of the system of national accounts? What sources and which methodologies are used for their compilation? How are these used to monitor and analyse economic and financial developments? What can we learn about the 2007–2009 economic and financial crisis when looking at the numbers provided in this framework? What can we learn about financial risks and vulnerabilities? The publication is intended for young statisticians, students, journalists, economists, policy makers and citizens, who want to know more about the statistics that are at the heart of the analysis of financial developments in OECD economies. It responds to the renewed interest in monetary and financial stability issues, and in monitoring financial risks and vulnerabilities, including their impact on growth and employment.



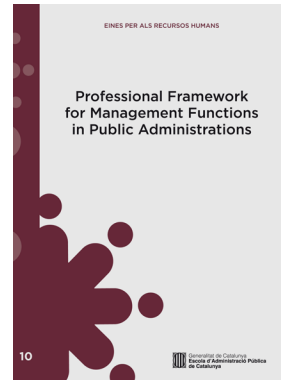
## Participatory budgets in Gavà

Gavà City Council (a city of more than 46,000 inhabitants, to the south of Barcelona) is promoting the ***Junts Fem Barri*** program (We Make the Neighbourhood Together), a participatory process through which citizens can establish and decide on works improving the public space. Neighbours can choose between the proposals presented by the City Council and other citizens, after having been validated by the technical services of the council. The most popular projects by vote are executed in order of priority. Participants can send their proposals to various voting points such as the city libraries, sports centres, the municipal market or homes for the elderly, and can also participate digitally via the platform Gavà participa, Gavà decideix (Gavà participates, Gavà decides). The first program dates back to 2014. In 2018, neighbours can decide on the destination of 500,000 euros of the investment plan and each of the proposals has a maximum limit of 35,000 euros.



## **Professional Framework for Management Functions**

The general sub-directorate for Research and Training in Senior Management of the **Public Administration School of Catalonia** has just published in Catalan, Spanish and English the **Professional Framework of the Management Functions in Public Administration**. The publication defines the functional and competency framework of the profile of public management personnel and aims to be a reference instrument for the deployment of the professional public management system, both in terms of access and subsequent development, monitoring and evaluation. With the definition of this professional framework, the School offers human resources units a valuable tool for the implementation of policies for people development and talent management. The framework will allow the defining of positions of public management in accordance with functions and transversal competences, while being flexible and adapting to the characteristics of each administration or public entity, but without forgetting continuous evaluation leads to the best decision making. The new *Professional Framework of the Management Function* is the starting point for the design of the new Management Development Plan with which the Public Administration School intends to consolidate a qualitative leap in the training offer aimed at the public management of Catalonia.



## New European regulations for data protection

On May 25, the **General Data Protection Regulation of the European Union (GDPR)** enters into force regulating the treatment that people, companies and organizations can make of personal data related to fellow citizens in the European Union. It represents a unique set of data protection rules for all companies and institutions that operate in the EU, regardless of where they have their headquarters. Stricter data protection regulations mean that people have more control over their personal data and that companies benefit from equal conditions. The European Commission **website** offers **guidance** on the main aspects of the GDPR that a public administration must know, how people's **requests** should be treated and **what happens** if an administration does not comply with the rules of data protection. In Catalonia, the **Catalan Data Protection Authority** and the Public Administration School of Catalonia have been training public professionals for the correct application of the GDPR in recent months. Among the novelties of the new regulation is accountability; the obligation to assume a proactive and demonstrable responsibility in data protection.



## NovaGob 2018

From 24 to 26 October 2018, Toledo (Spain) will host the **V Ibero–American Conference on Public Innovation** after the 2017 event took place with more than 600 professionals from the public sector, 100 speakers from all over the State and from all levels of Administration and the participation of several countries in Latin America. The initiative is promoted by **NovaGob**, a social network specialized in Public Administration and favouring collaborative work and the transmission of knowledge, which puts public employees, professionals in the private sector and members of the academic field committed to the improvement of the public sector, in contact with each other. The meeting is designed at an earlier stage through the Internet with contributions from the actors involved, and alternates round tables, debates, presentations and lectures with the delivery of the *NovaGob Excellence Awards* chosen by members of the NovaGob community.





## The Futures Toolkit

The **Futures Toolkit** from the Government of the United Kingdom provides a set of tools to help embed long-term strategic thinking within the policy process, and explains how to ensure they have real impact. It is intended for policy officials and analysts alike. The toolkit summarises what futures thinking is, how it can be used in policy making and describes a series of tools that can be used by policy makers to manage in uncertainty and identify future actions. The tools vary in the expertise needed to use them, with tools for beginners through to tools for experts. The aim is to ensure that public policies and decisions are informed by the best scientific evidence and strategic long-term thinking. The tools are organised according to their primary purpose and each procedure is set out in detail. The annexes provide examples of the outputs that different tools generate. They are adaptable and can be customised to meet the needs of most futures projects. To illustrate this, the Toolkit sets out a number of pathways that show various ways the tools can be combined to meet specific needs. The Toolkit is practical rather than theoretical and each tool and pathway describes the design and facilitation steps required to deliver the technique.



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**European Public Mosaic (EPuM).  
Open Journal on Public Service**

No. 5 / May 2018

ISSN 2565-0378

DOI: 10.2436/20.8030.08.5

[epum.gencat.cat](http://epum.gencat.cat)

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This journal is published three times a year. The articles published reflect only the opinions of their authors.

We would like to thank Jordi Baños-Rovira and Anna Tarrach-Colls (Budget Office, Catalan Government) for their assistance in this issue.



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