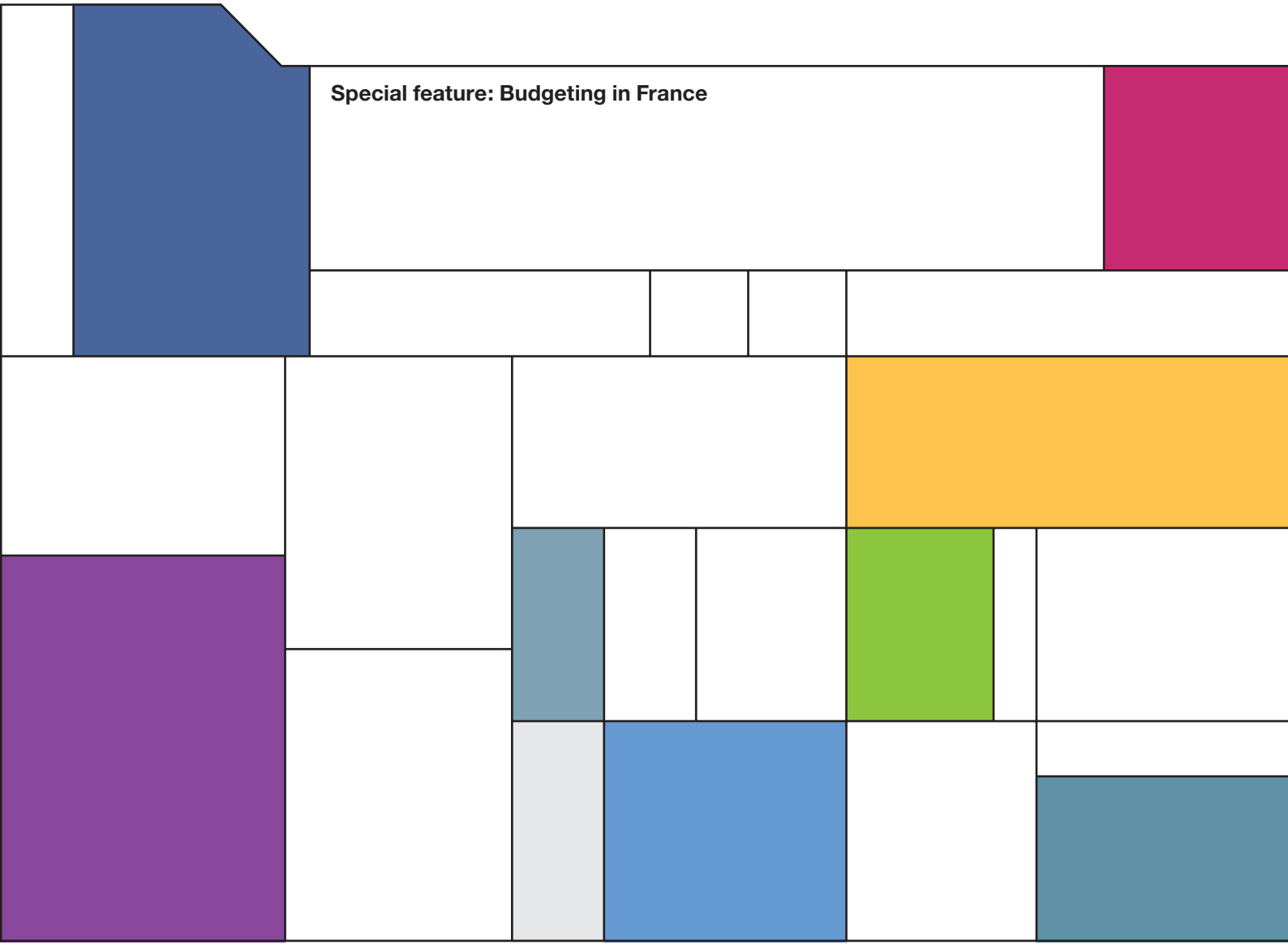
OECD Journal on Budgeting

Special feature: Budgeting in France



OECD

Volume 18/2

OECD Journal

OECD Journal on Budgeting

Volume 2018/2

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Please cite this publication as:
OECD (2018), *OECD Journal on Budgeting, Volume 18 Issue 2*, OECD Journal on Budgeting, OECD Publishing, Paris.
https://doi.org/10.1787/budget-v18-2-en

Series: OECD Journal on Budgeting
ISSN 1608-7143 (print)
ISSN 1681-2336 (online)

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Foreword

The OECD Journal on Budgeting is a unique resource for policy makers, officials and researchers in public sector budgeting. Drawing on the best of the recent work of the OECD Working Party of Senior Budget Officials (SBO), as well as special contributions from finance ministries of member countries and from other practitioners, the Journal provides insights on leading-edge institutional arrangements, systems and instruments for the effective and efficient allocation and management of resources in the public sector.

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The OECD established an Advisory Panel on Budgeting and Public Expenditures in 2012. Its role is to offer insights on the directions of the OECD work in this crucial area.

The Panel is composed of recent former chairs of the Working Party of Senior Budget Officials (SBO) and distinguished academics and experts associated with the SBO.

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Budgeting in France

By

Delphine Moretti and Dirk Kraan

During the last two decades, France introduced a series of far-reaching reforms intended to bring about greater transparency towards Parliament, autonomy and flexibility to public managers, and rigor in to fiscal policy making.

The report highlights remarkable features of these reforms, such as the comprehensiveness of financial and performance information available to Parliament and the general public, the medium-term dimension of the budget process and well-established transition to top-down budgeting, as well as the autonomy granted to public managers on spending decisions. It finds that the current budget framework commends confidence among the broad range of budgetary stakeholders.

In terms of priority areas for reform, the report outlines that France should explore ways to address the fragmentation of its budget framework. It also notes that France's transition towards a full top-down budgeting approach could be strengthened in coming years by defining more detailed parameters for preparing subsequent budgets as part of its medium-term planning. Last, it highlights that, building on existing practices, the framework for fiscal risks management could be strengthened.

JEL Codes: H50, H61, H83

Keywords: budgetary governance, fiscal transparency, public financial management, medium term planning, performance, budgeting, fiscal reporting.

The report was prepared based on interviews conducted by Ms. Delphine Moretti, Senior Policy Analyst, Budgeting and Public Expenditure Division, OECD, with Mr. Jean-Christophe Gray, Director, Public Services in the United Kingdom's HM Treasury; Dirk Kraan, international consultant on public financial management; and Jérôme Mercier, Director, Expenditure Management Sector at the Treasury Board Secretariat of Canada. It was written by Ms. Delphine Moretti and Mr. Dirk Kraan, under the supervision of Jón Blöndal, Head, Budgeting and Public Expenditure Division. Lisa von Trapp, Senior Policy Analyst, Budgeting and Public Expenditure Division, contributed extensively to Section 7 on Parliament's Role in Budgeting and External Oversight.

Foreword

OECD budget reviews are produced under the auspices of the OECD Working Party of Senior Budget Officials and at the request of the country under consideration. Budget reviews cover all phases of the budget process and may emphasise specific aspects of the budget process in view of the country's own reform agenda.

In France, the Government formed in 2017, supported by a robust parliamentary majority, has been creating a window of opportunity for far-reaching reforms of the public sector. One important initiative of the new Government in this context is the creation of the Public Policy Programme 2022 (*Programme Action Publique 2022*), which should contain the Government's reform agenda for improving public management and policies.

Against this background, the Ministry of Finance (*Ministère des comptes et de l'action publique*) asked the OECD to conduct a review of its budgeting framework to present and assess reforms and innovations introduced over the last decades and identify how to move the current reform agenda forward.

In carrying out this task, the OECD benefited from extensive consultations and interviews with officials from the Ministry of Finance, line ministries, the Court of Accounts, the Parliament, as well as academic and independent experts. The authors would like to express their gratitude for their availability and insights.

The report was prepared based on interviews conducted by Ms. Delphine Moretti, Senior Policy Analyst, Budgeting and Public Expenditure Division, OECD, with Mr. Jean-Christophe Gray, Dirk Kraan and Jérôme Mercier, OECD experts. It was written by Ms. Delphine Moretti and Mr. Dirk Kraan, under the supervision of Jón Blöndal, Head, Budgeting and Public Expenditure Division. Ms. Lisa von Trapp, Senior Policy Analyst, Budgeting and Public Expenditure Division, contributed extensively to Section 7 on Parliament's Role in Budgeting and External Oversight.

The preliminary version of this report was presented at the June 2018 annual meeting of OECD Senior Budget Officials, during which a peer review of its findings was conducted by delegates of Sweden and the Netherlands.

Executive Summary

During the last two decades, France introduced a series of far-reaching reforms intended to improve transparency, give greater autonomy and flexibility to public managers, and introduce more rigour in fiscal policy making. Although several dimensions of the budget framework are currently under review and could be strengthened, the experience of the last 20 years clearly shows the benefits of these reforms, which enjoy broad support amongst institutional stakeholders.

The quality of the State budget documentation is already quite high. An extensive set of financial and performance information is published throughout the year, in the Pre-budget Report, State Budget Act, Budget Execution Act and accrual financial statements. In addition, in pursuing transparency objectives, the Ministry of Finance strives to improve the utility and user-friendliness of budget documents by regularly consulting a broad range of stakeholders, including citizens and parliamentarians.

Another important feature of the French budget system is its medium-term dimension. Laws on the Programming of Public Finances, introduced only a few years ago, have already profoundly transformed the budget process by setting medium-term fiscal targets

for each level of government, anchored to government commitments formulated in Stability Programmes, the main instrument of EU surveillance of national budgetary policy.

The principal means for meeting medium-term fiscal targets in France are expenditure rules laid out in Laws on the Programming of Public Finances. These expenditure rules initially focused on discretionary expenditure of the State, but their scope has been steadily expanded to discourage opportunistic changes in the distribution of spending. A cap on healthcare spending is also set annually, for which the monitoring mechanism was recently reinforced.

The move to top-down budgeting, a necessary complement to medium-term planning, is also well established. The formulation of the annual budget, a bilateral process between line ministries and the Ministry of Finance's Directorate of the Budget (with arbitrations of the Prime Minister's Office) is strongly influenced by the ceilings set in the State triennial budget and expenditure rules stipulated in the Laws on the Programming of Public Finances.

The reforms of the last decades considerably increased public managers' autonomy and flexibility. Parliament authorises spending envelopes at a fairly aggregate level – i.e., for around 130 public policies (*programmes*). Within these spending envelopes, public managers have a large degree of discretion in using their resources, subject to a ceiling on wages.

The autonomy granted to public managers is backed by tight controls on compliance with spending limits, exercised by the Ministry of Finance. Spending limits are enforced both for commitments and payments: all commitments with third parties must be recorded in an IT system operated by the Ministry of Finance and are capped, per programme, in the annual budget. Reliable, up-to-date information on commitments and payments incurred on each programme is therefore available at any point in time, allowing the sustainability of line ministries' spending to be assessed against fiscal targets and expenditure rules.

During budget execution, spending cannot be increased without the approval of Parliament, but reallocations are authorised to address budgetary pressures and emergencies while ensuring compliance with expenditure rules. As the Directorate of the Budget recently required line ministries to prepare more conservative budgets, the recourse to such reallocations is expected to decrease in the future.

High-quality cash management allows for orderly budget execution. Cash balances of line ministries, public agencies and local government are fully centralised, with profiling of upcoming disbursements provided on a daily basis by the very large network of public accountants, who also control and process all payment orders.

The State and public agencies maintain accounts on commitment, cash and accrual bases, while Social Security prepares only accrual accounts. The State's year-end reporting is particularly comprehensive: first, performance reports are prepared for each government programme showing actual spending and performance results against the budget and initial objectives; second, accrual financial statements show all assets, liabilities and contingent liabilities of the State.

Both financial and performance information is audited by the Court of Accounts, the independent supreme audit institution, which also publishes regular reports on the state of public finances throughout the budget cycle to inform Parliament and the general public. Independent oversight of the budget process was further strengthened in recent years with

the creation of an independent fiscal institution, which noticeably improved the reliability of macroeconomic forecasts.

Parliament retains a strong role in the State Budget Act's approval process. Discussions remain, however, limited at other important stages of the budget process, such as the presentation of the Pre-budget Report and Budget Execution Act. Consequently, Parliament is considering options to rebalance its involvement in the process.

In spite of the strengths described above, challenges remain. Compared to peer countries, France's budgetary framework is highly fragmented, which creates difficulties for measuring the total cost of policies implemented at different levels of government and also limits decision makers' capacity to allocate resources based on political priorities. As a priority area for reform, France should therefore explore ways to reduce the fragmentation of its budgetary framework.

France's medium-term budgeting practices could also be strengthened, against the background of the new government's ambitious fiscal consolidation plans. Fiscal targets should be translated into precise expenditure prioritisation decisions. This could be achieved through a phase of governmental deliberation prior to the formulation of the Law on the Programming of Public Finances and, possibly, through regular spending reviews. This would allow line ministries to, in turn, establish reliable and detailed multi-year spending plans.

As in many other OECD countries, unforeseen events have made it particularly difficult, in recent years, to deliver medium-term fiscal targets. International experience shows that a "fiscal margin" could efficiently act as a buffer to absorb emergencies or new priorities that inevitably arise after medium-term plans have been laid out.

Finally, although a wide range of budgetary risks are identified and monitored by a variety of actors, reporting and analysis of these risks are scattered and feature only to a very limited extent in the policy-making process. Building on existing practices, the Ministry of Finance could therefore consider options for publishing a summary report of such risks that could inform consideration and debate about challenges for meeting fiscal targets.

Table 1. France and the OECD Recommendations on Budgetary Governance

The OECD Recommendation of the Council on Budgetary Governance (2015) sets out ten principles of effective and modern budgeting. The table below provides a concise summary assessment of France's budget system by reference to all budget principles covered in the report.

Budget Principle	France	Reference
1. Clear fiscal limits	Targets for total spending of each level of general government are set for a three to five-year period in the Law on the Programming of Public Finances. These targets are "operationalised" into a set of expenditure rules that are generally complied with, but their limited coverage creates incentives for opportunistic changes in the distribution of spending and makes possible deviations from targets for total spending.	Section 4
2. Medium-term strategic alignment	The Law on the Programming of Public Finances embodies the medium-term dimension in the budgeting process and is recognised by all stakeholders as the anchor for the formulation of the State and Social Security annual budgets. Operational parameters for preparing subsequent budgets could however be better specified.	Section 4
4. Open, transparent and accessible budget documents and data	Comprehensive and reliable budget/financial information is accessible on Government websites, with a number of publications presented in a citizen-friendly way. The Ministry of Finance almost constantly seeks inputs from stakeholders to improve the legibility of budget/financial documents and data. Selected open, useful and reusable data is routinely made available.	Section 6

Budget Principle	France	Reference
6. Comprehensive, accurate and reliable accounting	Commitment, cash and accrual accounts are maintained and published on an annual basis by the State and public agencies. Social security publishes accrual accounts annually. Budgets and accounts are comprehensive and reliable but very fragmented.	Section 3 and 6
7. Active planning, management and monitoring of budget execution	Cash management is exemplary, with profiling, control and realisation of cash disbursement done centrally by the Ministry of Finance through a treasury single account. While tight controls are exercised to insure that line ministries comply with spending authorisations, great autonomy is granted to them on spending decisions and flexibility measures allow for addressing emergencies, under strictly codified criteria. Earmarking of revenue, which is largely used, however creates significant budget rigidities.	Section 3 and 5
8. Performance, evaluation and value-for-money	Performance information is exemplary, as both summary and detailed information on performance indicators and results for each Government programme is published each year for accountability purpose. However, as in many OECD countries, performance evaluation does not yet inform budgetary decision making and introducing spending reviews exercises could help in better prioritising spending and preparing medium-term plans.	Section 6
9. Fiscal risks and long-term sustainability	Several fiscal risks are monitored by the Ministry of Finance and other stakeholders, but they are not systematically measured and disclosed. Fiscal sustainability is assessed only as part of European Union Aging Report exercise. This is an area where the Ministry of Finance, in which progress is clearly possible and needed.	Section 5
10. Quality, integrity and independent audit	External oversight is strong. The High Council for Public Finances underpins the quality of macro-economic forecasts. The Court of Accounts is a very strong supreme audit institution and realises audits to high international standards, including systematic review of performance indicators and results.	Section 7
Other key issues	Parliament has a strong role in the budget process, which is however very focused on the annual budget formulation stage. Analytical capacities at the disposal of parliament are good, but could be increased in key areas such as fiscal policy and performance evaluation.	Section 7

1. A changing economic and fiscal environment

1.1. Political and institutional landscape

1.1.1. The "semi- presidential system"

The Constitution of the Fifth French Republic ("the Constitution") adopted by referendum on 28 September 1958 and amended several times since then, is the cornerstone of the political system in France.[1] Under the Constitution's provisions, France combines the characteristics of a Parliamentary democracy with a strong executive power and is often defined as a "semi- presidential system".

The Head of State is the President of the Republic, elected for five years by direct universal suffrage. The Constitution gives the President important duties and responsibilities in the fields of foreign and defence policies. Constitutionally, the executive power lies with the Council of Ministers, which is chaired by the President. The Government is headed by the Prime Minister, who is appointed and can be dismissed by the President. Similarly, ministers are appointed and dismissed by the President, but on the Prime Minister's proposal.

Legislative power lies with a bicameral Parliament comprising a Lower House (National Assembly) and an Upper House (Senate). Governments are primarily accountable to Parliament, as stated in Article 20 of the Constitution, but also answer to the President. However, in times that the Presidential and Parliamentary majorities do not coincide, the balance of executive power shifts to Parliament and the Prime Minister (a situation which has not been experienced in recent years due to the 2000 amendment to the Constitution).

1.1.2. The complex institutional landscape

Not many countries experience such a dense, diverse and idiosyncratic institutional landscape as France. Public entities, in France, fall under many legal statuses and under a range of different budgetary regimes, discussed in detail later in this report.

Firstly, the State ("*l'État*") is a public body endowed with legal personality and composed of administrative structures that operate at central and decentralised levels. Around 10 autonomous central administrations have separate legal personality and administrative structure, such as the Parliament and Court of accounts.

Around 1 300 State public agencies ("*établissements publics*") operate under several statuses existing in French law (e.g. public administrative establishments, public establishments with scientific, cultural or professional character, public industrial and commercial establishments, groupings of public interest, associations and a few others). Their executive policy is not subject to direct ministerial responsibility, as they have their own board or chief executive officer. Their funding sources (transfers or own revenue), size (from five to several thousand employees) and functions (policy making or delivery) greatly vary.

Fifteen administrations are part of the French social security ("*sécurité sociale*"). They manage four regimes providing pensions, health entitlements, family benefits and insurance for workplace accident assistance.

Lastly, an exceptionally high number of entities - more than 30 000 - operate at the local level, under several legal statuses (e.g. regional Governments, departments; municipalities as well as groupings of local Governments with a juridical personality).

1.2. Macro-economy

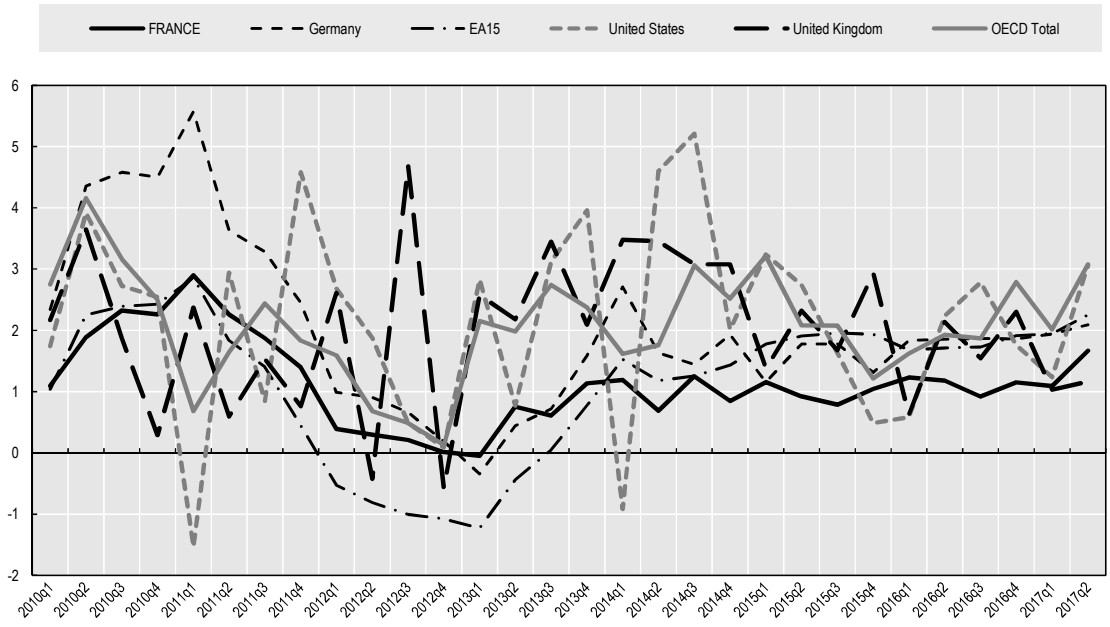
Growth in France has been driven over the last decades by many strong sectors such as machinery and chemicals, metallurgy, automobiles, aircraft, electronics, textiles, food processing, tourism and energy production, as well as sectors in which France is a world leader, such as nuclear energy, defence, fashion, wine, cheese and perfume.

Despite these strengths, the French economy recently underperformed relative to Germany and other OECD countries (see Figure 1). Several factors explain that situation, among which limited external competitiveness is generally considered a major one. However, since 2017, economic growth has rebounded, in the context of favourable macro-economic environment in the euro area and supported by fiscal alleviation in the areas of corporate taxation and social security contributions. In 2018-19, growth is expected to remain robust at an annual pace of around 2 % thanks to stronger external demand, a rebound in tourism, robust business confidence and job creation (OECD 2017).

Another recurrent problem is rigidities in the labour market, which is believed to have led to the high level of unemployment in the workforce. At 8.9%, unemployment in France is considerably higher than the OECD average (see Figure 2). In addition, sharp inequalities in educational outcomes have hindered social mobility and prevent more inclusive labour outcomes. However, lower social contributions, hiring subsidies and blocked-up training programmes for the unemployed, have generated a downward trend in the unemployment rate since 2015, which is expected to strengthen in 2018 due to labour market reforms (OECD 2017).

Figure 1. OECD countries: Real GDP growth rate

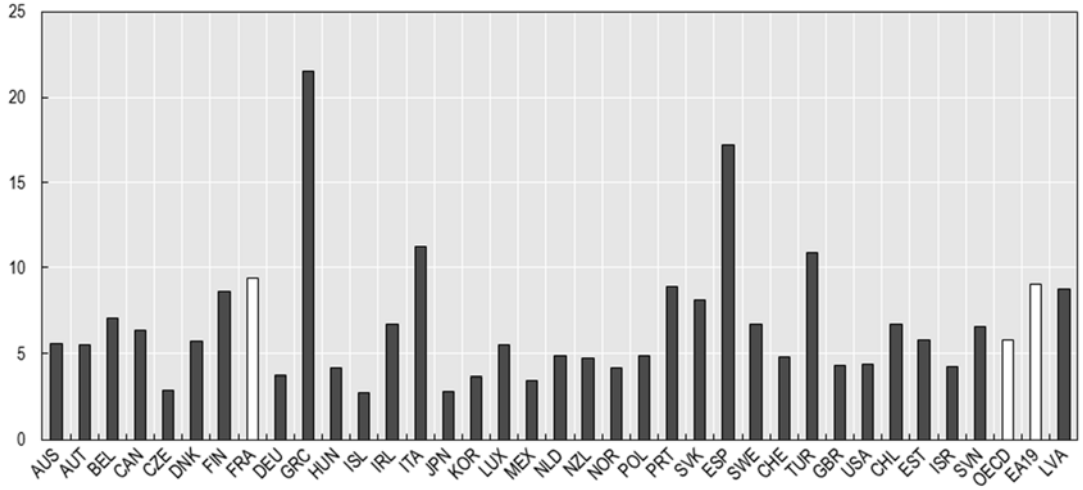
%, year on year changes, 2010-2017



Source: OECD 2017.

Figure 2. OECD countries: Unemployment rate

%, 2017



Source: OECD (2017).

1.3. State of public finances

1.3.1. General government spending

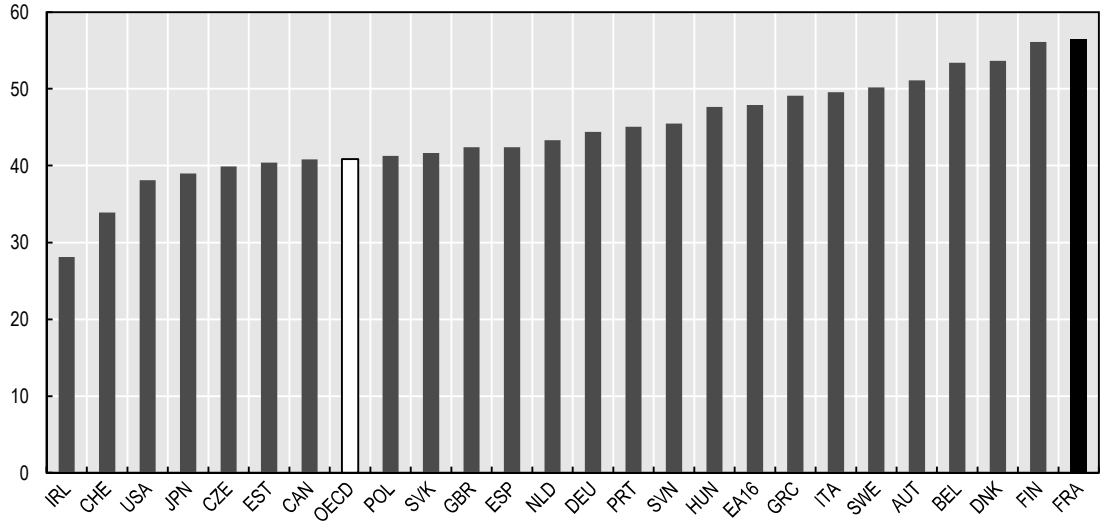
In the national accounts, public entities are classified under the three sectors of the general government sector ("*administrations publiques*", or APU) as defined in the UN System of National Accounts 2008 and the European System of Accounts 2010:

- The State, independent administrative bodies, and public agencies ("*Organismes divers d'administrations centrale*", or ODAC) comprise the Central Government ("*administrations publiques centrales*", or APUC);
- The social security (see Box 1) and a number of large State public agencies that manages and delivers unemployment benefits and pensions for selected beneficiaries, as well as several smaller State public agencies providing health and social care, compose the Social Security Sector ("*administrations de sécurité sociale*", or ASSO); and
- All public institutions operating at the local level that are not attached to the central Government comprise the Local Government Sector ("*administrations publiques locales*", or APUL).[2]

General government spending has been growing steadily in France since the 1960s, in all three sectors, and reached 56.4% of GDP in 2016 (Figure 3), the highest of all OECD countries. Social security is the sector where spending increased the most over the last decade, rising to 26% of GDP in 2016, and generated the bulk of general government spending in recent years (Figure 4).

Figure 3. OECD countries: General Government Expenditure

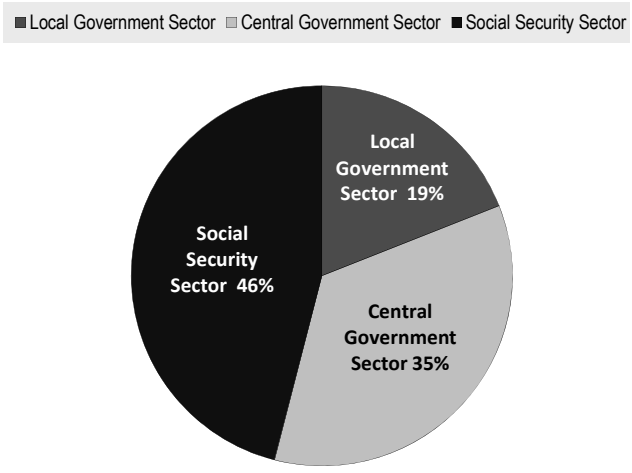
% of GDP, 2016



Note: Or latest year available
Source: OECD (2017)

Figure 4. France: General Government Expenditures

Shares of sub-sectors in %ages of general government expenditures.



Source: Directorate of the Budget Activity Report (2017).

The substantial difference between general government expenditure in France and the euro area average can be specified in terms of selected items of the international COFOG classification, which registers public expenditures in terms of their function (Table 2). Differences are concerned in particular with a large variety of social benefits, such as old age pensions, housing subsidies, health care, unemployment benefits and tax credits for low income earners (under economic affairs). France also spends more than its peer countries on defence.

Table 2. France: Repartition of General Government Expenditure

Composition of the difference in the rates of General Government expenditure to GDP between France and the euro area average in terms of the COFOG classification (% of GDP, 2016)

Eurozone average (without France)	46.3
Old age pensions	3.4
Economic Affairs	1.6
Housing	1.3
Health care	1.1
Family and children	0.9
Education	0.9
Defence	0.7
Unemployment	0.3
Other	0.1
France	56.6

Source: Directorate of the Budget Activity Report (2017).

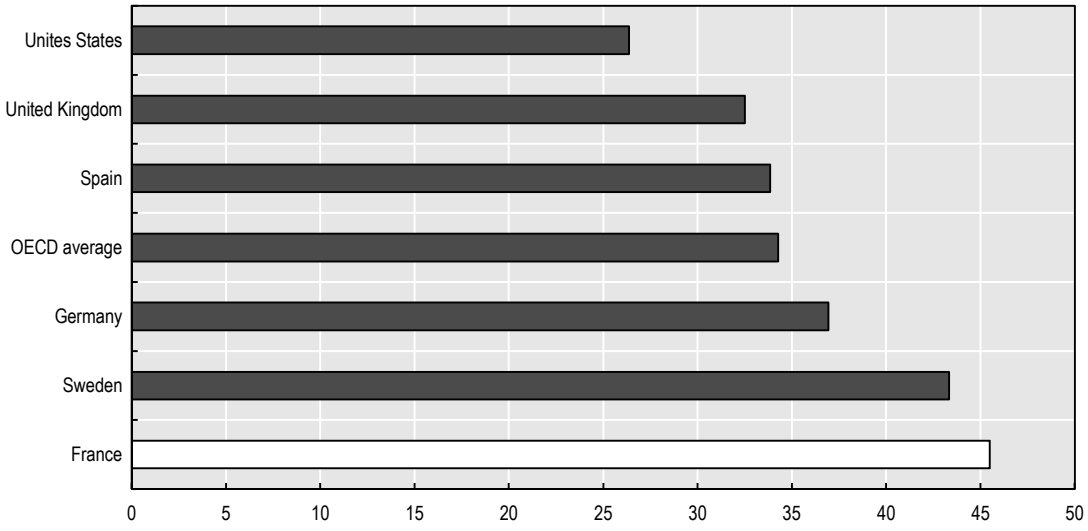
1.3.2. Tax Revenue

In line with public expenditure level, France has the highest rate of tax revenue to GDP in the OECD (45.4% of GDP in 2017, see Figure 5). The tax system in France is complex, with a large number of frequently changing exemptions and credits. Tax incidence also

significantly deviates from the OECD average with relatively low shares of taxes on good and services, such as value added tax, and on personal income and relatively high shares of taxes on payroll and workforce and social security contributions.

Figure 5. Selected OECD countries: General Government Revenue

Rate of tax revenue to GDP; 2015



Source: OECD (2017)

1.3.3. Deficit and debt

The French public finances have always been in deficit since the first oil shock (1975), regardless of up-turns or down-turns of the economic cycle. Therefore, France entered the global financial crisis in 2008 with an effective deficit of 3.2% of GDP, which peaked at 7.2% of GDP in 2009. Since 2012, the structural deficit level has gradually been reduced albeit at a slower pace than in other EU countries.[3] In 2017, the nominal deficit was at 2.6% of GDP, hence falling below the under the 3% threshold of the Stability and Growth Pact for the first time since the financial crisis. However, the structural deficit remains high as reduction of the nominal deficit is due to a rise in tax receipts, rather than a reduction of public spending.

As a consequence of persistent public deficits, public debt has more than quadrupled in France from 21.2% of GDP in 1978 to 96.8% in 2017, resulting in the French level of indebtedness being substantially higher than the euro area average. This constitutes a considerable fiscal risk, in view of the low interest level of 2016 (0.75% on 10-year French Government bonds), that could easily move upwards in future years.

The current level of public debt is mostly due to the State, which is also the only sector of general government that generated a deficit in 2017 (social security and local government sectors both generate surpluses). However, analysing levels of debt and deficits by sector is difficult in France, as transfer mechanisms as well as earmarking of revenue discussed in Section 2 in this report have resulted in the State increasing its own deficit and debt levels to finance those of other sectors of government.

1.4. The Government's ambitious reform programme

Since its formation in 2017, the Government has made considerable efforts to develop a wide-ranging and far-reaching structural reform programme and expects that the favourable context of the economic upturn will contribute to its aim to attain a transformation of the economic and social model of France. This reform programme is based on four pillars:

1. Stimulation of economic activity through a structural reform of the labour market, a relief of the tax burden and a simplification of market regulation;
2. Investments in both the private and public sectors, aimed at innovation, and leading to improvement of productive capacity and a new model of economic growth;
3. Protection of citizens and sharing of opportunities in order to strengthen social inclusion and to combat territorial fractures and inequalities, through the renovation of the social model and the invention of new protections, adapted to the modern economy.
4. Reform of public finance and public management.

With regards to public finances, it is notable that the newly elected Government decided in 2017 a package of spending cuts in the course of the budget execution of over EUR 5.0 billion, in order to ensure that the general government deficit remained under the 3% threshold of the Stability and Growth Pact.[4] Significant across the board cancellation of appropriations was performed.

The Government simultaneously laid out its fiscal plan in the Law of the Programming of Public Finances 2018-2022 ("*Loi de programmation des finances publiques*", or LPFP), which sets a medium term objective for general government structural balance at -0.4% of potential GDP in 2022. The moderation of public sector salary growth is expected to be an important component of this effort and all administrations have been asked to cut into their operational costs. Savings are expected also in areas where France spends more compared to its peer countries, as discussed above. The Government plans indeed on decreasing housing subsidies and health spending. Finally, to identify additional savings, the Government launched a spending review exercise, the Public Policy Programme 2022 ("*Programme Action Publique 2022*"), covering the whole of the general government.

In parallel with these expenditure measures, a substantial tax relief package has been decided, amounting to EUR 10 billion in 2018, which aims at creating further economic growth, as well as employment and consumer purchasing power; improving the competitiveness of enterprises; and stimulating investment in the corporate sector.

Box 1. France: The Social Security

A mixed model

In France, social security ("*regimes de sécurité sociale*") was established in the wake of the Second World War as independent public institutions with an administrative structure entirely separate from the State. They have their origins in the social insurance model whereby independent institutions finance various benefits to workers by levying mandatory contributions (also called premiums) on employers and employees, known as the "Bismarckian" system, as opposed to Government-managed benefits, known as the "Beveridge" system. The French Bismarckian model however evolved over time, due to three main factors. Firstly, Social Security Funds were increasingly tasked with delivering universal coverage benefits on behalf of the State, such as the "Universal Health

Coverage". Secondly, Social Security Funds increasingly relied on Government financing, partly for funding universal coverage benefits, partly for funding the deficit of the premium funded benefits. As employers and employees federations progressively stepped down from policy and management functions, France's social security is now made up of historically inherited independent institutions controlled by a Government that has gradually reasserted control on its management and spending.

Social Security Policy

Social Security policy is defined in laws and regulations that establish legal right of eligible persons to receive a financial benefit under specified criteria. This implies that, in principle, governments can change the expenditures through the adjustment of laws and regulations, provided Parliamentary consent. However, in practice, as seen in most other OECD countries, formal procedural arrangements for consultation with social partners and executive organisations are still mandatory.

Administrative organisation: "regimes", "branches" and cash offices ("*caisses*")

A regime is characterised by the population covered, the benefits provided and the methods by which they are financed. A regime can be basic or complementary. The most important basic regime is the "general regime" which sets provisions for all employees of the private sector except in agriculture, but there are 39 different basic regimes for specific professional groups. Complementary regimes are equally obligatory but they cover risks that are not covered by the basic regimes, such as a regime for supplementary old age pensions for senior staff officials ("*cadres*") in the private sector.

Social benefits are provided by the territorially organised cash offices, which are the basic institutional units of social security. They form networks which are co-ordinated by a national cash office (the "branch"), which has the status of a State operator. A network of cash offices handles the social benefits of one or more regimes. The first and second branches make use of the same network of cash offices and are co-ordinated by the same national cash office (CNAM). The third and fourth branches are each co-ordinated by its own national cash office (CNAF and CNAV). The fifth branch consists of 22 unions for the collection of social security mandatory contributions and is co-ordinated by the central agency for the organisms of social security (ACOSS).

Source: Authors and OECD (2015).

2. Two decades of budgetary reforms

2.1. Legal foundation for budgeting

France's budget system has a very strong legal basis, as successive Organic Budget Laws have instituted a number of "foundational" budgetary principles that shape the State budgetary framework. There are four such principles: unity, specification, annuality and universality, which can be summarised as follows:

1. The principle of **unity** means that, for every financial year, all revenue and expenditure of the State, must be entered in a single document: the budget;
2. Under the principle of **specification**, each appropriation must be allocated for a specific purpose, this purpose being defined in the budget nomenclature;

3. The principle of **annuality**, which is designed to make it easier for the Parliament to monitor the Government's activities, requires all budgetary operations to be attached to one financial year; and
4. The principle of **universality** means that the total revenue in the budget must cover the total expenditure. In other words, State revenue constitutes a common fund which is used to finance all expenditure without distinction.

Within these principles, primary and secondary legislations codify budget procedures for all levels of government. Although legislation remained largely unchanged from the 1950s from the late 1990s, since then, successive waves of reforms, driven successively by the Parliament, the Executive and the Ministry of Finance, as well as European Union Treaties, have modernised budgeting procedures, and also introduced new, more modern principles into the budget framework. These reforms can be schematically divided into those that aimed primarily at increasing transparency towards Parliament, and those that aimed primarily at reinforcing fiscal responsibility. The following sections provide an overview of main changes brought by two decades of reforms, with detailed description and analysis of the budgeting procedures provided in subsequent sections.

2.2. The "Transparency Reforms"

The "Transparency Reforms" are major legislative reforms that took place in the early 2000s. They aimed at further empowering Parliament in budget discussions and facilitating year end scrutiny, by providing more transparent, detailed and legible information for both the State and social security, as described below.

The first and maybe most important reform of the last two decades in France is the new Constitutional Bylaw on State Budget Acts ("*Loi Organique de Lois de Finances*", or LOLF), borne out of a bipartisan Parliamentary initiative in 2001 to replace the 1959 Organic Ordinance. It constituted a real "big bang" in terms of fiscal management for the State as, in line with the ideas of *New Public Management*, the LOLF broke with the old tradition of input control to embrace the more modern concept of performance monitoring. The core innovation brought by the LOLF was a very refined system of performance budgeting, combining both programme presentation of the budget and performance-informed allocation of cash and commitments. In practice, this meant that a State budget is to be presented by missions, programmes and actions, to which several objectives and performance indicators were associated.

Although performance budgeting is generally considered the foundational element for greater transparency in the budget process brought by the 2001 reform, the LOLF introduced several other requirements to improve the sincerity, quality and completeness of budget documentation, among which providing a rationale for "each euro" allocated to missions and programmes (or "zero based budgeting") and preparing accrual accounts at year-end that would disclose the full cost of government operation and its financial position.

The LOLF also granted a large degree of financial autonomy to managers. The full appropriation for operating expenditure (except salaries) could be used on a discretionary basis, towards objectives and performance indicators set in the programme. Managers could enter into multi-annual commitments, within ceilings set in the State Budget Act. In return for this high level of financial autonomy, managers are expected to adhere to strict financial and performance reporting rules.

Finally, the LOLF significantly empowered the Parliament. Before 2005, the Parliament approved nearly 95% of annual appropriations (representing the renewal of past appropriations) in a single vote, and was entitled to review, in detail, and approve on a line by line basis only "new appropriations" - that is appropriations associated with new policies. From 2006, the Parliament started voting the budget allocated to each mission and programme, from the first euro. The LOLF particularly emphasised the Parliament's role in the oversight and evaluation of budget execution.

Ten years-on after its implementation, the LOLF is considered the hallmark of the French budgetary system and its innovations generally perceived as successes, even though recent stock taking exercises identify areas for improvements (Court of Accounts, 2016). The LOLF can even be said to have "set the tone" for modernising other sectors of government: Since 2006, social security and public agencies have undergone budgetary reforms explicitly inspired by the LOLF, as explained below.

Transparency reforms also took place in the social security sector in the late 1990s. As the French Government was taking on a more active role in social security management and funding (see Box 2), questions about transparency over the Executive's decision-making process started to emerge. Under the impulse of the then Prime Minister, a Constitutional Bylaw ("*Loi constitutionelle du 22 fevrier 1996*") instituted annual Social Security Financing Acts ("*Loi de financement de la sécurité sociale*"), hence clarifying and asserting the Government's role in determining social security policy and subjecting social security financing to the approval of Parliament.

Although this reform was a major step in terms of transparency and accountability towards Parliament, the subsequent adoption of the LOLF shed light on a number of weaknesses of Social Security Financing Acts. Consequently, a new Constitutional Bylaw ("*Loi Organique de Loi de financement de la sécurité sociale*", or LOLFSS), modelled after the LOLF, was adopted in 2005 to align as much as what was considered possible to the content of the State's and Social Security's annual budgets. In particular, the LOLFSS required the Social Security Financing Act to present "core tables" highlighting whether each of the social security regimes were in balance, deficit or surplus to associate performance indicators (with lesser details than for the State).

Finally, more recently, in 2016, the Decree of the Budgetary and Financial Management of Public Entities ("*Décret relatif à la gestion budgétaire et comptable publique*", or GBCP) aligned the budgetary framework for public agencies with the LOLF. The Decree required, in particular, that public agencies prepare budgets that set annual commitment and cash authorisations, using nomenclature similar to the State's and define objectives and performance indicators to allow monitoring of their results. The decree also codified modernisations of budget execution processes previously piloted by the Ministry of Finance, such as risk-based control ("*contrôle hierarchisé de la dépense*"), shared services ("*centres de service partagés*") or digitalisation.

Box 2. France: Social Security Financing Act after the LOLFSS

Following the adoption of the LOLFSS, Social Security Financing Acts were aligned the State Budget Acts, subject to remaining specificities. An important difference between State Budget Acts and Social Security Financing Acts is that in the former limits are set for expenditures ("limitative" authorisations), with few exceptions (e.g. debt interests), while in the latter, not only the revenues but also the expenditures, have the character of forecasts or even of objectives ("evaluative authorisations").

Social Security Financing Acts therefore approve forecasts of expenditures, revenues and balances presented in so-called equilibrium tables presented per branch for the year t (the budget year) and "equilibrium tables" for the basic regimes of the previous year (the year t-2 in the law for year t). They also adjust, if necessary, the same equilibrium tables for the current year (the year t-1 in the law for year t).

Social Security Financing Acts also include a cap for health spending of the next year, the National Objective for Healthcare Spending ("Objectif National de Dépenses de l'Assurance Maladie", or ONDAM).

Finally, Social Security Financing Acts contain numerous other provisions with respect to revenues, expenditures, cash management and the management of organisms in the area of social security. Moreover, they authorise the ACOSS and certain other cash offices to take on loans and limit the ceilings of new loan commitments.

Social Security Financing Acts include a number of important annexes which mirror information provided in the State Budget Act although often with less detail:

- Annex A presents the balance sheet of the organisms covered by the law.
- Annex B contains estimates of revenues and expenditures, ONDAM and balance per branch for four years (the budget year plus three out-years).
- Annex C provides detail about the revenues of the organisms covered by the law per category of revenue (premiums, taxes, transfers from other organisms, etc.) for the budget year.

In addition, an annex presents "quality and efficiency programmes" for each branch. This annex is inspired by the LOLF and prescribes the provision of performance information, including objectives, policy strategies, results and performance indicators. An annex presents "objectives and management agreements" that have been concluded between the State and the most important cash offices in order to establish their objectives (improvement of service quality) and their means (including human resources). An annex provides a list of allowances and exemptions of premiums and own contributions, comparable to the list of tax expenditures that is included in the State budget. An annex explains how the ONDAM is established, which measures have been taken to respect it and how these measures fit into the public health policy of the State. Finally, an annex presents *ex ante* evaluations of measures underlying the estimates of the law.

The Social Security Financing Act covers a broad perimeter but does not fully encompass all social security administrations (as defined in the national accounts). The law only covers the compulsory basic schemes of the Social Security as well as the funds that contribute to its financing. For this reason the unemployment insurance system, as well as the supplementary pension schemes (that are part of the social security administrations in the national accounts), are out of the scope of the LFSS.

Source: Authors.

2.3. The "Fiscal Responsibility Reforms"

The "Fiscal Responsibility Reforms" are innovations initiated by the Finance Ministry since the late 1990s - expenditure rules, spending reviews and multi-year planning - which aimed at reinforcing the top-down character of the budgeting framework and containing

expenditure growth. Though these reforms had no legislative basis in the first place, most of them have been codified over time into the law.

2.3.1. Expenditure rules

Besides the various fiscal rules imposed by EU membership, the Government has sought, since the late 1990s, to develop expenditure rules that could be "anchors" for budget preparation and monitoring of budget execution.[5]

The State Discretionary Expenditure Rule ("*norme de dépense de l'État*") was developed in 1996, with its scope revised in 2004, 2008, 2012 and 2018. In addition, the Government developed in 1997 the National Objective for Healthcare Spending ("*Objectif national de dépenses d'assurance maladie*", or ONDAM). For local government, an expenditure rule (so called ODEDEL) started to be presented in 2014, to complement the historical "golden rule" that entities to fund operating expenditures out of their own revenue (and not by borrowing). In total, in 2018, there are four such expenditure rules currently in use for general government (see Table 3).

From being mainly management tools, expenditure rules evolved over time to become the principal means for operationalising medium-term fiscal targets and have been enshrined in legislation. In particular, since 2009, expenditure rules applying to the State and State operators are approved by Parliament as part of the Law on the Programming of Public Finances, with their scope described in an appendix to the law, known as the Budgeting Charter ("*Charte de budgétisation*").

Table 3. France: Expenditure Rules for General Government (2018)

	Creation	Current Legal Basis
State		
State Discretionary Expenditure Rule (« *Norme de dépenses pilotables de l'État* »)	1996	Law on the Programming of PF 2018-2022
State Total Expenditure Rule (« *Objectif de dépenses totales de l'État, or ODETE* »)	2018	Law on the Programming of PF 2018-2022
Social security		
National Objective for Healthcare Spending (« *Objectif National de Dépenses de l'Assurance Maladie* », or ONDAM)	1997	Annual Social Security Financing Acts
Local Government		
Local Government Expenditure Rule (« *l'objectif d'évolution de la dépense locale* », or ODEDEL)	2014	Law on the Programming of PF 2018-2022

Note: Applicable also to State operators.
Source: Authors, based on Directorate of the Budget.

In addition to these expenditure rules, a number of "limitations" have been set over time on specific elements of spending that have been identified as major sources of pressure on public finances. In recent years, these limitations have concerned in particular tax expenditures and the public sector payroll. Although they do not necessarily set ceilings on spending as is the case with a traditional expenditure rule, these limitations establish a framework for incurring certain expenditure that is aimed at monitoring their growth. For example, measures aimed at stabilising the central government payroll include an annual limitation target on total employment by ministry.

2.3.2. Spending reviews

France has a long history of spending reviews.[6] Despite several such exercises in recent years, results in terms of savings have been generally considered limited. This may be explained by the fact that, contrary to many other OECD countries, spending reviews typically had mandates broader than the identification of savings and never had a close link to the budget formulation process.

Recently, two comprehensive spending reviews have been rolled out by successive Governments. The first one ("*Revue des dépenses publiques*", or RGPP) took place in 2007-11 and aimed at identifying possible savings and efficiency gains at the central government level. The second one ("*Modernisation de l'Action Publique*", or MAP) took place in 2013-16 and aimed primarily at simplifying administrative procedures - that is improving the quality of services to users - with savings considered a secondary objective.

In 2014, the Law on the Programming of Public Finances also instituted annual spending reviews to be conducted as part of the budget preparation and whose results were to be presented in an appendix to the Budget Act. These spending reviews were conducted on selected topics from 2014 to 2016, and generated regular but limited savings. However, this practice was abandoned in 2017.

In 2017, the new Government launched a spending review exercise, the Public Policy Programme 2022 ("*Programme Action Publique 2022*"), covering the whole of the general government. In line with previous French spending review exercises, the mandate is broad: the Public Policy Programme 2022 does not only aim at generating savings, but also at improving quality of public services and work environment for civil servants.[7] Conclusions reached as part of the three work streams are scheduled to be delivered in 2018 and subsequently analysed by a ministerial committee ("*Comité interministériel de la transformation publique*") for deciding on savings (and related reforms) to be done by each ministry.

2.3.3. Multi-year perspective in budgeting

The medium term perspective in the budget process has been long lacking in France, due to legally grounded principle of annuality of the budget.

The LOLF introduced a level of multi-annual perspective in the budget process via commitment authorisations ("*autorisations d'engagement*") - that is authorisation to enter into financial legal obligations beyond the budget year.[8] Similarly, the LOLFSS introduced a medium-term perspective in the budget process for social security administrations, which were required since 2005 to provide in the annual Social Security Financing Act a three-year perspective on the evolution of their public finances.[9]

While considered successful, these innovations did not constitute a medium-term framework *per se*. Therefore, in 2007, under the initiative of the Ministry of Finance, the Government decided to address this shortcoming of the budgetary framework by introducing a new process for the preparation of the State Budget Act, requiring line ministries to prepare a so-called State Triennial Budget - that is a detailed budget for the budget year and estimates of expenditures of the following two years.

Following this first step, a modification of the Constitution, in 2008, established the Laws on the Programming of Public Finances, hence finally codifying multi-year budgeting into the French budgetary framework.[10] The Constitution also stipulated that Laws on the

Programming of Public Finances were to be established with regards to the "budget balance objective for general government", falling however short from setting a fiscal rule.

Ultimately, in response to obligations set out in the European Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the 2012 Constitutional Bylaw ("*Loi Organique de 2012 relative à la programmation et à la gouvernance des finances publiques"*) codified the detailed content of Laws on the Programming of Public Finances.[11]

3. Budgeting across levels of government

3.1. Administrative relationships

State agencies, social security and local governments all have a certain level of autonomy granted by law. The Constitution establishes, in particular, the administrative autonomy (also called "free administration") of local government and guarantees a certain level of resources, generated through taxes (either as a fraction of national taxes or local taxes, which can be set independently).[12] The Constitution does not include similar provisions with regards to social security but states that social security "financial position and financing needs" shall be approved by an Act of Parliament separate from the State's own budget. Public agencies are not mentioned in the Constitution, but secondary legislation grants them some level of administrative autonomy, as they have their own board of directors and budgets.

Notwithstanding this administrative autonomy, operational and financial relationships across levels of government are highly intricate in France. At an operational level, traditions and several waves of reforms have resulted in the sharing or transferring of full responsibilities for implementing certain policies from the State to other levels of government:

- Firstly, public agencies, in particular the so-called operators of the State ("*opérateurs de l'État*"), whose operations are less regulated than those of the State (for example in terms of ceiling on number of employees and recruitment of private sector professionals), have been increasingly tasked with defining or implementing State policies, in particular in the environmental and social areas (see Box 3);
- Secondly, social security has been increasingly tasked with delivering universal social benefits on behalf of the State (see Box 1);
- Thirdly, the two main waves of decentralisation, launched in 1983 and 2003, resulted in regions becoming responsible for managing upper secondary schools and vocational training of the unemployed. Departments were assigned the task of operating social and selected health-care programmes and lower secondary schools, while management of urban public transport, kindergartens, primary schools, libraries and museums was given to municipalities.

Box 3. France: The State and its Operators

In France, public service formulation and delivery has historically been done by ministries, but increasingly, transferred to public agencies in recent years. In 2001, in response to the increasing funding and role of public agencies in public service formulation and delivery, the LOLF prescribed the identification of "contributions in support of public service delivery" in the budget and provision of information about "beneficiaries of these contributions" to Parliament, which were subsequently denoted as "State operators".

The list of State operators is defined each year by the Directorate of the Budget on a set of criteria. State operators generally combine the following characteristics: 1) they deliver public services; 2) they are mostly financed by the State; 3) they are steered and controlled by the State; and 4) they have legal personality. The number of State operators has decreased from 798 in 2007 to 486 in 2018. The 486 State operators which are identified in the State Budget Act of 2018 have different forms of legal personality as recognised in French administrative and civil law: there are "public administrative establishments" (53%), "public establishments with scientific, cultural or professional character" (30%), "public industrial and commercial establishments" (8%), "groupings of public interest" (3%), "associations" (2%) and a few others.

The State controls the operators through their financing, in particular, the financial contributions and the revenues of earmarked taxes that are established for them, through the nomination of their directors or the participation in their boards of management, and through the supervision of their budgets. The control of the operators is a common responsibility of the Ministry of Finance and the line ministry to which they are attached. Line ministries and state operators should establish multi-annual contracts describing the operator's missions and objectives, but according to the 2018 State Budget Act only 33 % of the State operators have concluded such contracts.

As required by the LOLF, since 2006, a specific document on State operators is provided to Parliament as an appendix to the State Budget Act. It contains information on their activities for the 53 programmes of the budget in which they are involved. Annual proposals and performance reports attached to the budget contain a section that specify the operator's financial contributions received from the State budget, their objectives, key figures (of their own budgets), and their employment levels, each specified per programme.

State expenditures for the operators mainly consist of financial contributions ("subventions") and transfers in favour of third parties (the final beneficiaries). In total, the expenditures for the operators amounted to EUR 44.4 billion in the 2018 budget (of which EUR 28.9 billion financial contributions and EUR 14.9 billion transfers). The amounts can represent 75 % or more of a programme in the State Budget Act.

Source: Authors.

The sharing or transfer of responsibilities that took place involved devolution of State resources. The Constitution sets guidelines governing the financial compensation of the transfer of responsibilities from the State to local governments. There are also specific rules regulating the transfer of responsibilities between the State and social security. However, earmarked taxes were increasingly used to cover costs of certain functions transferred from the State to other levels of government as concerns were expressed on the

volatility of State transfers against a backdrop of upward pressure on environmental and social spending.[13]

In this regard, Table 4 below shows that around half the resources allocated to the environment and infrastructure policy of the government consists of earmarked taxes "locked" in to special funds or operators.[14] A recent OECD (2015) study also notes that health care is financed for just around 50% by wage-based contributions and other sources of financing included several earmarked taxes.[15]

Earmarked taxes have become a concern for the Ministry of Finance, reflecting recommendations of international institutions and public finance practitioners to make limited use of such schemes (for example, the OECD Recommendations on Budgetary Governance recommend that "the use of ear-marking of revenue [be] kept to a minimum"). High levels of earmarked taxes are indeed generally considered a challenge for good budgetary management, as they limit resources trade-off between policies and may also create incentives for overspending.

In an attempt to address the problem, the 2012 State Budget Act established "caps" on the level of earmarked taxes flowing to certain State operators - meaning that revenues from those taxes in excess of those ceilings automatically flow back to the State budget. While this constitutes a short-term solution, it added complexity to an already intricate financial relationship across many levels of government which did not fully address budget rigidities created by the numerous earmarked taxes in France. Other solutions, such as the use of transfers or grants, could therefore be explored, as done in Germany, for example, where the federal budgets contains a large annual federal grant for the statutory health insurance.

Table 4. France: Ressources of the Environnent and Infrastructure Policy[1]

	EUR billion	% of total resources
State Budget	18,0	54%
Earmarked revenue funds (« Comptes d'affectation spéciale »)	8,3	25%
Extra-budgetary funds (« Budgets annexes »)	2,1	6%
Earmarked revenue for operators	4,7	14%
Total	33,2	100%

Note: [1] Policy ("*mission*") managed by the Ministry of Environment and Infrastructure ("*Ministère de la transition écologique et solidaire*") *Source*: State Budget Act 2018.

3.2. Co-existing Budget Frameworks

Reflecting legal principles of administrative autonomy, the State, its operators, social security and local governments all have their own budgets and accounts, which are prepared according to specific requirements at each level of government (see Table 5). However, following the GBCP reforms (see Section 2), the State and public agencies' frameworks are almost fully consistent, potentially paving the way for consolidating budgets and accounts of the State and its operators. Some level of alignment has also been achieved between the State and social security.

Table 5. France: Selected Elements of Public Entities Budget Frameworks

	Main Legal and Regulatory Reference	Accounting Basis for Budgets	Accounting Basis for Year-end Reports	Multi-Year Planning	Performance
State	LOLF	Cash and Commitments	Cash and Commitments; Accrual[1]	Detailed three-year forecast	Indicators and results for each budget line (around 600 in total)
Public Agencies	GBCP	Cash and Commitments; Accrual	Cash and Commitments; Accrual[1]	Detailed three-year forecasts [2]	Reported in two attachments to the State Budget Act[2]
Social Security [1]	LOLFSS	Accrual	Accrual	Aggregated four-year forecast	Around 15 broad indicators for 6 administrations (around 90)
Local Government	GBCP	Modified Accruals	Modified Accruals	None	None

Source: [1] Public agencies within social security sector shall follow principles and rules set in the GBCP; [2] Forecasts are however not prepared at the required level of detail yet by all public agencies.
Source: Authors.

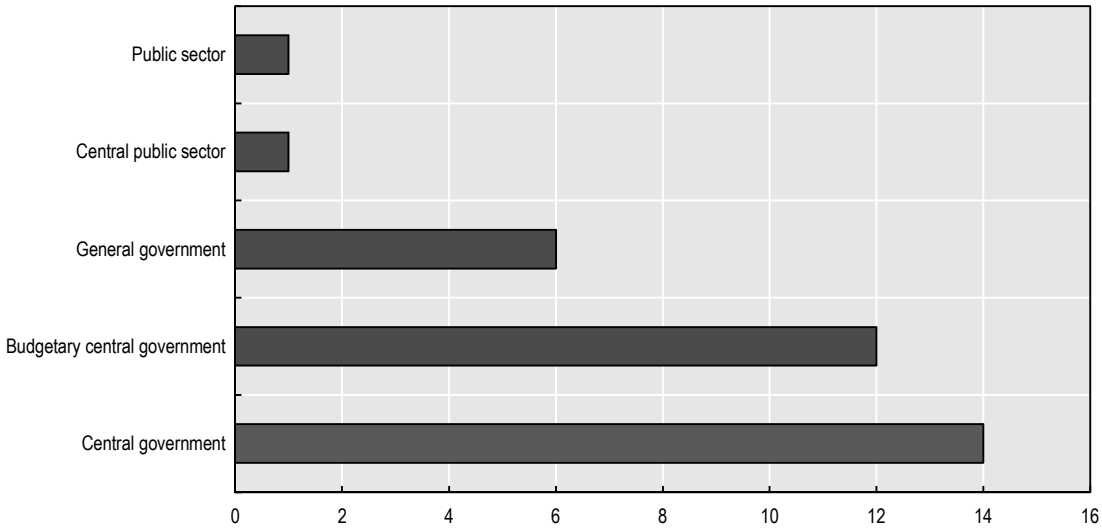
Although budgetary frameworks are progressively aligned, the French budget framework remains highly fragmented. Specifically:

- Two annual budget legislations, the State Budget Act and Social Security Financing Act, are presented to Parliament. However, social security benefits that are managed by State operators - e.g. unemployment benefits - are not covered in the annual social security budget (see Box 2);
- The numerous State operators establish budgets that are distinct from those of the ministries they are attached to. In other words, only financial contributions and transfers received from the State budget are submitted for parliamentary approval, although information on their performance objectives, employment and own budgets are documented in appendices to the State Budget Act.

Such fragmentation is relatively rare in OECD countries. As highlighted by a recent OECD survey (see Figure 6), around 60% of OECD countries establish budgets covering at least the central government - that is the State and its agencies. In addition, irrespective of its institutional coverage, the budget generally comprises universal social benefits financed by taxes, as opposed to those financed by premiums. Within this general principle, a variety of practices exists in OECD countries as illustrated in Box 4.

The fragmentation also generates serious challenges. Firstly, it impairs policy makers' understanding of the scale and costs of sectoral policy as information is scattered among numerous budgets and financial reports that are difficult to navigate and reconcile. Secondly, capacity to exercise universal trade-off between public resources allocated to government policies is limited by their presentation in distinct budgets, voted separately by Parliament. This exacerbates budget rigidities generated by high levels of earmarked taxes, as highlighted above.

Figure 6. OECD countries: Institutional coverage of the Executive's Budget Proposal



Note: For 34 OECD member countries.
Source: 2017 OECD Budget Practices and Procedures Survey (forthcoming).

Box 4. Selected OECD Countries: Budgeting for Social Benefits

The Netherlands: The budget of the Minister of Social Affairs covers all social benefits and consists of three chapters: the two chapters of social security and the remainder. The two social security budget chapters are separated into budget financed benefits, and premium financed benefits. The budget financed benefits chapter is a chapter of the State budget, the premium financed chapter does not belong to the State budget (the Budget Law is thus not a State budget law, but a State and social security budget law). The expenditures of all three chapters are fully integrated in the expenditure control system (IBOS) of the central Government budget, with the State budget ceiling covering the budget financed benefits and the remainder and the social security ceiling covering the premium financed chapter. This implies, for instance that upward changes in one benefit must be compensated by downward changes in another (which can be done only by timely changing the underlying substantive laws or decrees). Consequently, both social security chapters are completely expenditure controlled.

Sweden: The Budget Bill covers all social benefits paid out by the Swedish Social Insurance Agencies, including healthcare and old-age pensions (a guaranteed pension, a means-tested benefit, provides a minimum pension for persons older than 65 with low or no income and at least 40 years of residency in Sweden). Only income-based and premium pension systems are not included in the budget and accounted in the financial statements of pension funds that belong to the general Government sector.

United Kingdom: The medium-term plan and annual budget covers all social benefits, called non- or less discretionary spending (Annually Managed Expenditure; AME). The independent forecasting authority (the OBR) is responsible for forecasting AME spending as part of the twice-yearly fiscal forecasting process. Since 2014, 55% of AME social security spending (excluding the Basic State Pension and automatic stabilisers) has been subject to a multi-year so-called 'Welfare Cap' - a 5-year spending forecast. Performance

against this forecast is assessed by the (OBR). Initially assessed yearly, in 2016 the UK Government revised the Welfare Cap so that it is set and assessed at the start of each 5-year parliamentary term. The enforcement mechanism is a 'comply or explain to Parliament' responsibility.

Source: Authors.

Accordingly, questions have been raised by some observers about whether the co-existence of the State Budget Act and Social Security Financing Act could be justified from both operational and budgetary perspectives, as the State progressively reasserted its control on social security regimes and increasingly financed social benefits. Although it was not envisioned so far that the whole social security could be integrated within the State Budget Act, other options have been considered. For example, the Court of Accounts proposed that all tax revenue be approved together in a separate act to allow annual trade-offs on resources allocated to policies managed directly by the State and those managed by social security.

With regards to State operators, more generally, a number of observers have questioned the legal requirement to establish budgets that are separate from those of the line ministries they are attached to. In France, unlike, for example, in Sweden and the Netherlands, there is no clear separation between policy development, handled by core ministries, and policy execution, handled by agencies. In other words, both line ministries and State operators may carry out policy and executive tasks relating to similar government policies, making it difficult to justify the existence of separate budgets.

Despite, or maybe because of, this fragmentation, the Ministry of Finance, and indeed the Directorate of the Budget, maintains very strong monitoring and control functions on all budgetary matters across levels of government. Within the Directorate of the Budget, a sub-directorate is tasked with monitoring budget formation and execution of line ministries (this is done through "mirror units", one for each line ministry); a sub-directorate is tasked with the control of operators' budgets and expenditures ("*Deuxième sous-direction*") and another that has similar control function for social security administrations ("*Sixième sous-direction*"). For the latter, the control function is shared with the Directorate of Social Security as explained in Box 5.

Box 5. France: Joint Formulation of Social Security Financing Act

The formulation of the annual Social Security Financing Act is a bipartite exercise, conducted by the Directorate of Social Security and the Directorate of the Budget within the Ministry of Finance. The Directorate of Social Security is historically part of the Ministry of Social Affairs and has been under a dual supervision from the Minister for the Budget and Minister of Social Affairs since 2007 (this dual supervision was put in place to articulate the DSS role in designing social security policies with its function of guaranteeing the financial equilibrium of the social security accounts).

The budget formulation starts with a forecasting of baseline policies, which take into account relevant regulatory parameters (for instance age thresholds), and economic and demographical developments. In particular, the ONDAM forecast is construed for each of its seven components on the basis of the relevant regulatory parameters and relevant socio-economic and other relevant developments (for instance the development of medical technology and the market prices of medicines).

The baseline report is submitted to the Commission for the Accounts of Social Security ("*Commission des comptes de la sécurité sociale*") between mid-September and mid-October - that is relatively late compared to the State's own procedure for budget formulation. This Commission is chaired by the Minister of Social Affairs and the Minister of Finance and includes representatives of the social partners, the social security regimes, medical professions and experts. Its secretary general is appointed by the First President of the Court of Accounts and is mandated to prepare its reports on the reliability of the forecast.

After the social security baselines are fixed by the Commission, the Directorate of Social Security takes the lead in formulating new measures to be submitted to Parliament as part of the Social Security Financing Act but works with other stakeholders for that purpose. The Social Security Financing Act is then presented to Parliament for approval, under the joint responsibility of the Ministry of Social Affairs and Ministry of Finance.

Source: Authors.

Over recent decades, in particular, following the adoption of the Stability and Growth Pact which requires the maintenance of general government finances in a balanced position (in underlying, cyclically adjusted terms), the necessity to co-ordinate fiscal policy across levels of government has increased. In France, the Law on Programming of the Public Finances is the legal mean by which the principles of administrative autonomy and joint fiscal responsibility have been combined, as these laws establish a framework for the fiscal policy of each sector of general government (in the form of fiscal targets and expenditure rules) that is consistent with commitments laid out in Stability Programmes, as explained in more detail in Section 3 of this report.

3.3. Summary Assessment

Due to legal principles of administrative autonomy, the State, operators, social security and local governments have traditionally established separate budgets and accounts in France, prepared according to different budgeting and accounting rules and principles designed to suit their specific circumstances.

Notwithstanding this administrative autonomy, operational and financial relationships across levels of government are highly intricate, with a significant number of policies transferred over time from the State to other actors, or shared between two or three actors. This generated significant, and increasingly complex, transfers of resources across levels of government, including through several earmarked taxes.

Over the last two decades, evolution of the State's budgeting framework in response to growing demands for transparency and fiscal responsibility, discussed in Section 2, have allowed the introduction of some level of harmonisation in budgeting practices across levels of government. In particular, the State and operators' frameworks have been almost fully aligned following a major reform in 2016, which allows greater consistency and clarity of budget information.

The monitoring and control functions of the Ministry of Finance on all budgetary matters across levels of government have also been strengthened. Within the Directorate of the Budget, dedicated sub-directorates are tasked with monitoring budget formulation and execution of operators and the social security. Also, controls over earmarked taxes have been developed, with ceiling established on tax revenues flowing to certain operators.

Despite notable progress, the existence of distinct budgets for the State, operators, social security and local government, as well as high levels of earmarked taxes, is unusual for OECD countries and generates a number of challenges. In particular, the fragmentation of the budget framework still limits Government's and Parliament's understanding of the scale and total cost of public policies and, also, their capacity to exercise trade-offs for allocating resources based on policy priorities and overall fiscal strategy.

Therefore, the Government could explore ambitious ways to address the challenges underlined above. The reintegration of social benefits funded by taxes (as opposed to premiums) in the annual State budget could be an option to consider. However, in the case of France, a full overview of social spending could be provided only in a budget that would cover the whole of the central government sector, as social benefits are delivered by the State, some of its operators and social security administrations.

4. Multi-year perspective in budgeting

4.3. Macroeconomic and revenue forecasts

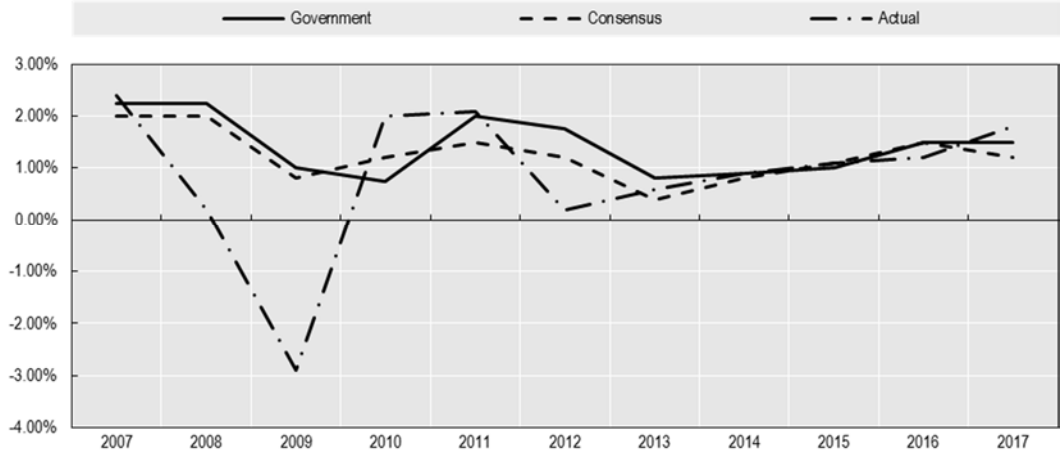
Macroeconomic forecasting is made by the Directorate General of the Treasury ("*Direction du trésor*") of the Ministry of Finance. It takes place twice per year, first in the winter in order to prepare the Stability Programme and second in the summer in order to prepare the State Budget Act and the Social Security Financing Act.[16] The results of the main exercises in winter and summer are summarised in so-called Technical Economic Forecasts that cover the entire French economy. These Technical Economic Forecasts are submitted to the cabinet of the Minister leading to adoption of the Government Forecasts.

Macroeconomic forecasts prepared for the stability program and every Budget Act are submitted to the review of an independent fiscal institution, the High Council of Public Finances (see Section 7), which advises on the credibility of the projections. As shown in Figure 7, GDP forecasts have been regularly overoptimistic over past decades, but reliability increased over recent years - in fact, since the creation of the fiscal institution, forecast errors have decreased from 1.5% to less than 0.20% on average, as shown in Figure 8.

After the summer exercise, Government Forecasts are sent to the other directorates of the Ministry of Finance and the Ministry of Social Affairs in order to serve as the basis for estimation of revenue (taxes and social security premiums) in annual budgets. Revenue forecasts are done under the basis of existing legislation and proposals for new measures.[17] For the State, revenue forecasting is carried out by an administrative committee gathering the Directorate of the Budget (for co-ordination), the Directorate General of the Treasury (for the macro-forecasts), the tax administrations, and the lax legislation department (for the impact of new measures). A similar process is set for social security, co-ordinated by the Directorate of Social Security. These administrative committees meet several times a year to inform the Minister, update forecasts and support decision making on new measures.

Figure 7. France: Nominal GDP forecast history (2007–17)

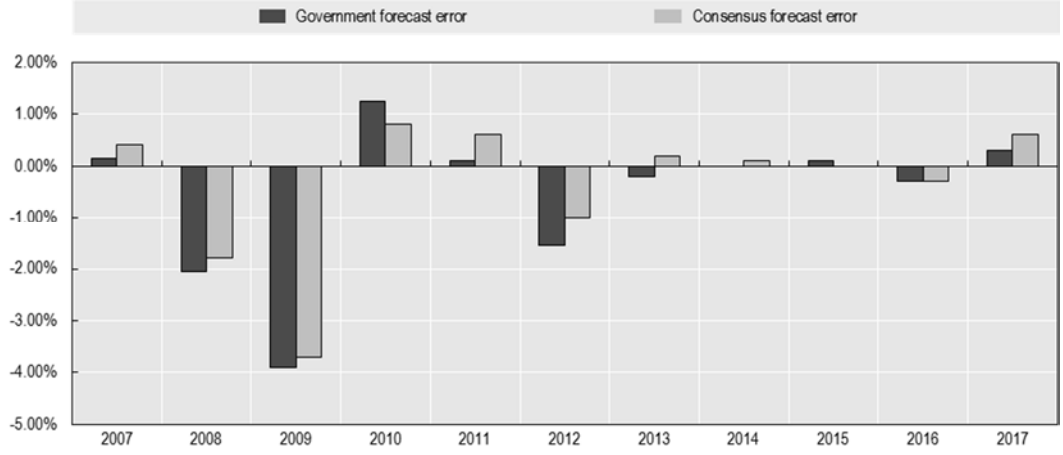
% of GDP



Source: Directorate of the Budget.

Figure 8. France: Forecast error (2007–17)

Nominal GDP Forecast Bias, %



Source: Directorate of the Budget.

Macroeconomic and fiscal forecasts prepared in the summer are published in the Economic, Social and Fiscal Report ("*Rapport économique, social et financier*"), an appendix to the State Budget Act. The report presents multi-year forecasts for the GDP and detailed discussion of the economic outlook (balance of payment, household consumption, employment, inflation), including the risks and uncertainties surrounding the forecast and alternative scenarios. Fiscal forecasts are presented with analyses of trends for central government revenue and spending and provide detailed analysis for each sector of government.

The Constitutional Bylaw of 2012 does not require the HCFP to deliver an opinion on revenue forecasts, though it stipulates that the independent fiscal institution evaluates "coherence between the structural balance forecast, formulated in the annual State Budget

Act and revenue forecasts in Law on the Programming of Public Finances". In order to do this, the HCFP also verifies coherence between revenue estimates for taxes and social security premiums (e.g. are they based on similar macroeconomic forecasts?).

In recent years, the HCFP, and the Court of Accounts, have been critical of revenue forecasts with regards to the clarity and completeness of data and documentation on forecasting methods. Overoptimistic macroeconomic forecasts mentioned above have also translated to overoptimistic revenue forecasts in recent years, even though the situation was reversed in 2017 when the GDP significantly performed above initial estimates.

4.4. Medium-term dimension of budgeting

As shown by the calendar for budget preparation (see Table 6), annual budget formulation in France is intended to be anchored in a multi-year perspective formulated in two documents, the Stability Programme and the Law on the Programming of Public Finances.

The Stability Programme is the first budget document prepared as part of the annual budget formulation cycle. Stability programmes are an important instrument of the EU surveillance of national budgetary policy, which present the development path of the public finances for the previous year, the current year and the three following years, based on "the most plausible and most prudent" macro-economic forecasts. The Stability Programme must in particular contain information on the medium term fiscal objective (so called OMT) for general government structural balance.[18]

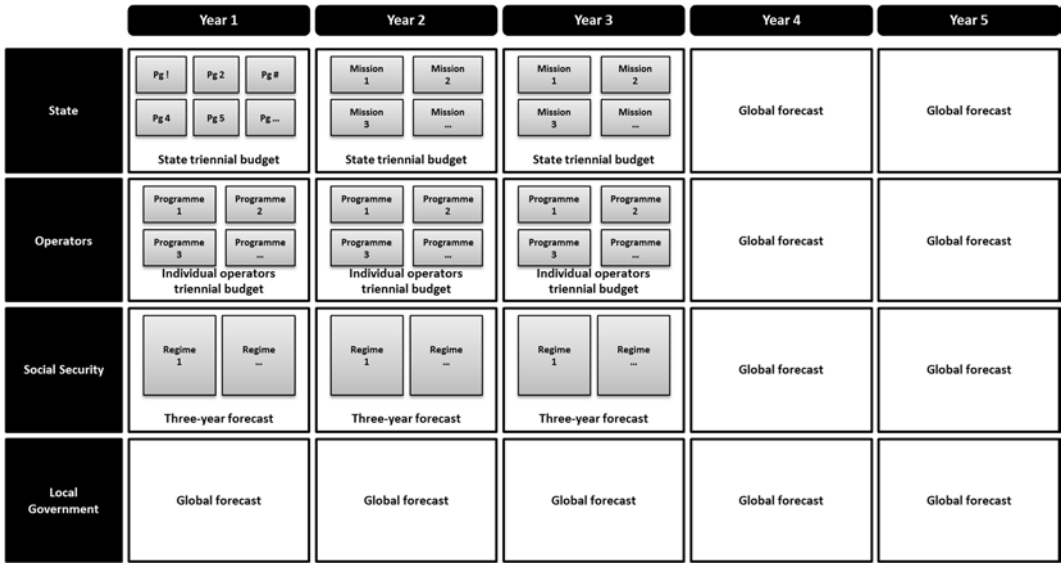
In France, the Stability Programme is prepared annually under the lead of the Directorate for the Treasury and in co-ordination with the Directorate of the Budget and other relevant stakeholders. [19]

EU regulations require the Stability Programme to be submitted to the European Commission around half a year before the Law of the Programming of Public Finances and annual budgets are finalised. Stability Programme forecasts are therefore based on the previous year's State Budget Act and Social Security Financing Act (updated of any significant policy decision) and also include estimates of potential savings that have not been formally agreed yet as part of the budget formulation process nor approved by Parliament. This regularly leads to discrepancies between the Stability Programme and Law on the Programming of Public Finances, on the year both are prepared.[20] The Stability Programme and Law on the Programming of Public Finances are in fact never fully aligned, as Stability Programme trajectories are revised annually, while those of the Law on the Programming of Public Finances are fixed for the whole period they cover.

The Law on the Programming of Public Finances is prepared every two or three years by the Directorate of the Budget. The time period covered in these laws must be at least three years according to the 2012 Organic Budget Law, but the most recent Law on the Programming of Public Finances covers a five-year period - that is the entire mandate of the President - hence becoming *de facto* the government "fiscal strategy".

Laws on the Programming of Public Finances translate the same year's Stability Programme's OMT into medium-term fiscal targets for each general government sector and specify means for meeting these targets.[21] More specifically, the Law on the Programming of Public Finances specifies the path of adjustment for each sector during the period covered by the law that will allow the attainment of the OMT; the structural effort that is required for that purpose; and sets related expenditure rules for the State and operators.[22]

Figure 9. France: Building Blocks of the 2018 Law on the Programming of Public Finances



Source: Authors.

Laws on the Programming of Public Finances are structured around distinct "building blocks" (see Figure 9):

- The first block is the State's triennial budget, which 1) forecasts State revenue and 2 sets binding ceilings on expenses for the budget year (Y) and next year (Y+1), as well as indicative ceilings for the year after (Y+2). Ceilings are at the level of missions and programmes on the budget year and missions for the two subsequent years;
- The second and third blocks are the three-year forecasts of operators and social security revenue and expenditures are based on information coming from the operators' own budgets and the Social Security Financing Law. Forecasts are done at programme level for operators and for each branch of social security; and
- The last block comprises broad estimates of revenue and expenses of local government.

Ceilings and forecasts prepared for each level of government are fixed, meaning that they are revised only when a new Law on the Programming of Public Finances is adopted. In years that a Law on the Programming of Public Finances is made, the Ministry of Finance makes sure that the State Budget Act and Social Security Financing Act are consistent with the fiscal targets set in the Law. However, as the Constitution does not establish any hierarchy between the Law on the Programming of Public Finances and annual budgets, deviations from medium-term fiscal targets in subsequent Budget Acts and Social Security Financing Acts are legally possible.

The principal means for operationalising medium-term fiscal targets in France is expenditure rules, an approach that is not widespread in OECD countries. In particular, the State Discretionary Expenditure Rule laid out in Laws on the Programming of Public Finances sets a mandatory ceiling on expenditure growth that is aligned with medium-term objectives. Growth targets have varied over time: in recent years, they have ranged between 0 to 1 percent. Although expenditure rules are enshrined in law, there is no corrective mechanism in case they are missed. In recent years, they prove to be an effective tool for

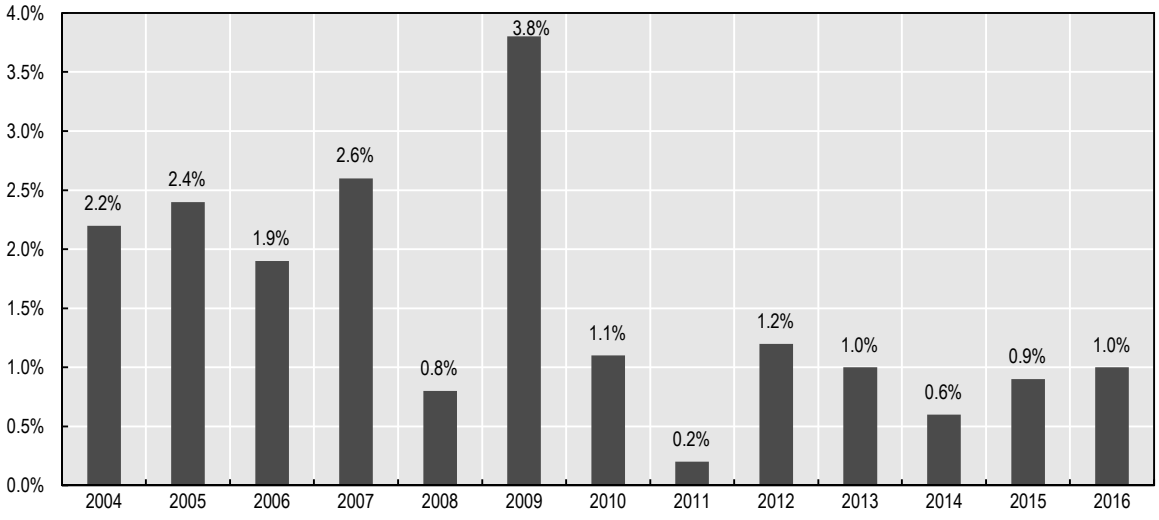
monitoring spending: growth of State discretionary expenditure has noticeably slowed, from an annual average of around 2% prior to 2009 to around 1% after that date (see Figure 10).

However, gaps in successive expenditure rules have limited their usefulness for meeting overall medium-term fiscal targets set in the Laws on the Programming of Public Finances. Specifically, expenditure rules, in the past, have concerned only the State and focused on discretionary spending and did not cover, for example, State operators' expenditures, certain transfers to local government, spending of some extra-budgetary funds, some earmarked taxes to third parties and tax expenditures. Recently, expenditures of the government's Growth Package ("*Programmes d'investissements d'avenir"*, or PIA) have also been defined as being outside the scope of the State Discretionary Expenditure Rule.

Therefore, to discourage opportunistic changes in the distribution of spending, the institutional coverage of the State expenditure rule has been progressively revised by the Ministry of Finance. For example, it was extended to State operators. Its scope was recently expended too. The Law on the Programming of Public Finances 2018-22 lays out two expenditure rules: the "traditional" State Discretionary Expenditure Rule and a Total Spending Target ("*objectif de dépenses totales de l'Etat*", or ODETE) which adds, among other elements, debt interest payments, pensions and certain transfers to local government to expenditures covered by the State Discretionary Expenditure Rule.

Figure 10. France: State Expenditure Real Growth Rate (excl. Tax Credits)

(Year-to-year)



Source: Directorate of the Budget

In addition to the State expenditure rules, the specification of a cap for health care spending, the National Objective for Healthcare Spending (so called ONDAM), is another important mean for meeting medium-term fiscal targets in France. The ONDAM represents the total amount of health spending that the parliament sets as an objective for a given budget year, in the Social Security Financing Act. The annual ONDAM figure is built on the basis of legal and regulatory parameters and other relevant developments (for instance the

development of medical technology and the market prices of medicines). It is split into three distinct elements representing each type of health service provider: ambulatory care, hospitals and medico-social centres, with ambulatory care and hospitals absorbing most of the ONDAM.

After years of missing the target, the introduction of monitoring and corrective mechanisms, as described below, has improved track records with meeting the targets:

- The ONDAM forecast (along with the forecast of all social security expenditure and revenue) is submitted to the review of the so called Commission for the Accounts of Social Security ("*Commission des comptes de la Sécurité Sociale*") between half September and half October - that is before the Social Security Financial Act is laid out in Parliament. This Commission, chaired by the Ministry of Social Affairs, includes representatives of the social partners, the social security regimes, medical professions and experts. Its Secretary General is appointed by the First President of the Court of Accounts and is mandated to prepare its reports;
- Since 2004, an Alert Committee ("*Comité d'alerte*") is tasked with steering compliance with the cap thorough the budget year. The Alert Committee has also the power to reduce payments and to withhold a portion of anticipated spending as a buffer against the risk of a budget overrun;
- A Steering Committee of key government actors and representatives of social security has been constituted to improve co-operation in meeting the ONDAM. This Steering Committee gathers representatives from Ministries of Social Affairs and Finance, as well as representatives from social security. It monitors health expenditures covered by the ONDAM every month, implements all savings that have been decided to help meet the target, and prepares the ONDAM for the following year. This committee works on the basis of the financial information provided by an ONDAM Statistical Committee which reports monthly on health spending for each ONDAM sub-target.

Overall, the introduction of Laws on the Programming of Public Finances, along with related expenditure rules, can be said to have brought a fundamental change to the budgeting approach in France, by codifying the medium-term dimension of the budgeting process and allowing consistency between commitments made by the Government at the European Union level and its national fiscal policy.

Notwithstanding this undeniable progress, some observers have noted that anchoring the Law on the Programming of Public Finances to the relatively complex and technical fiscal rules of the European Union has impaired the capacity of parliamentarians to understand and adhere to the Government's fiscal policy.

In addition, fiscal targets stated in the Stability Programmes, and indeed in Laws on the Programming of Public Finances anchored to Stability Programmes, have been missed by wide margins, not only in the out-years after the upcoming budget year but also in the budget year, even if this has been less the case in the past two to three years (see Figure 11).

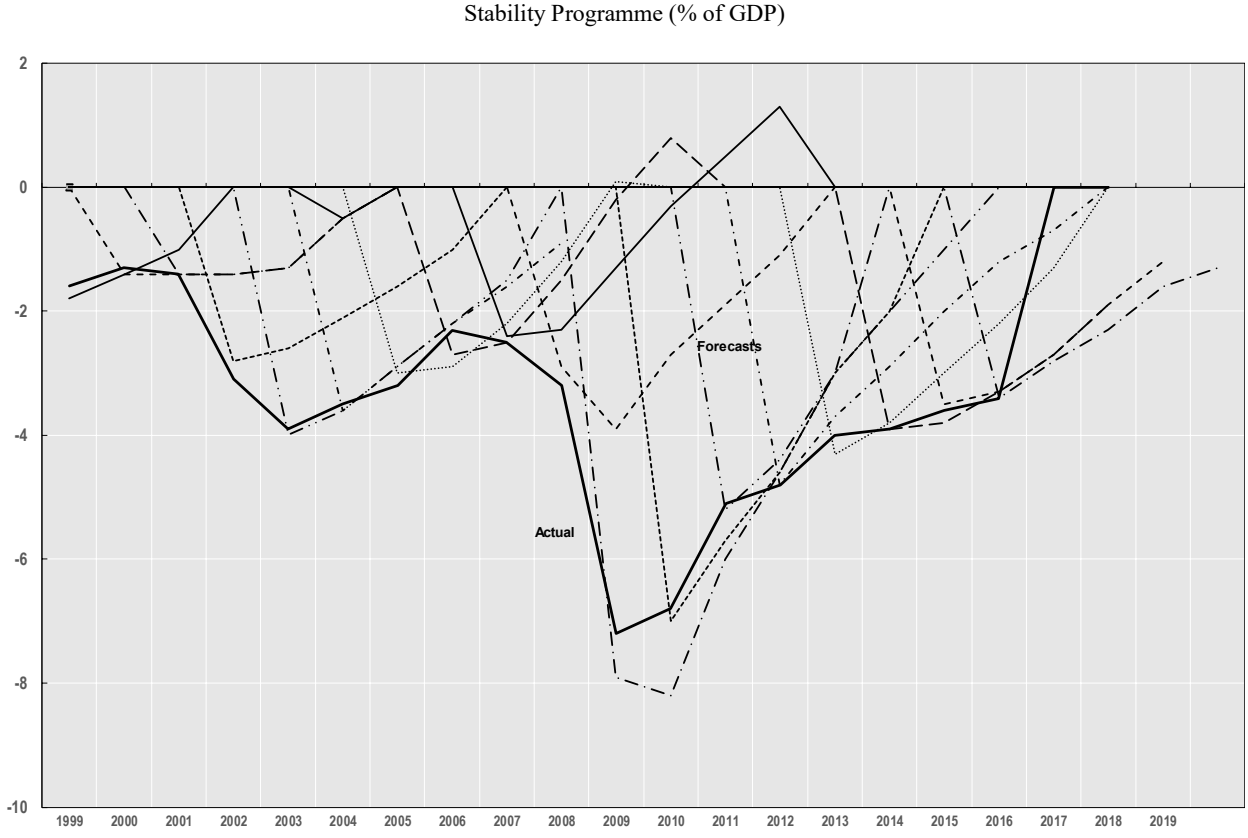
Explanations for overruns shared by most observers include the scope of expenditure rules, optimistic fiscal forecasts and weaknesses in expenditure prioritisation:

- Despite successive revisions and improvements, State expenditure rules do not cover all State expenditure. The spending cap applying to social security also targets only heath care spending, leaving aside pensions and other types of benefits. Specifically, in 2018, the State expenditure rules and ONDAM were covering

respectively only 19% and 15% of general government spending (of which 19% corresponds to the local government sector);

- The practice in recent years of establishing relatively optimistic revenue and spending forecasts, instead of conservative ones, has generated limited margin to absorb fiscal emergencies - and such emergencies have been constant in France over recent years, in the wake of the financial crisis, but also, more recently, the terror attacks;[23]
- Lastly, some observers consider that main challenges for delivering medium-term targets are linked to reluctance of politicians and public managers to face, both individually and collectively, the hard facts of expenditure prioritisation. This is due to the predominant culture of bilateral annual budgetary discussions and lack of political sanction when targets set in the Law on the Programming of Public Finances are not complied.

Figure 11. France: Fiscal targets history



Source: Directorate of the Budget.

There have therefore been, several calls during the last decade, for further reinforcing the medium-term perspective in the budget process. Some observers proposed, in line with OECD recommendations on Budgetary Governance, that a multi-year budget providing more details be prepared to complement expenditure rule and bolster the credibility of the Laws on the Programming of Public Finances by making clear, in concrete terms, how the deficit target would be reached. For example, Camdessus (2010) recommended that a multi-year budget framework programme be voted by each new parliament, where the new

government lays down the fiscal programme in a very detailed manner in its coalition agreement.

4.5. Management of budgetary risks

Beyond expenditure rules directly anchored to meeting medium-term fiscal targets set in the Law on the Programming of Public Finances, the Ministry of Finance has developed over time a range of mechanisms for measuring and, where possible, mitigating a number of budgetary risks that could create pressures on public finances over the short and medium term. These risks are, firstly, budgetary risks arising from expenditures that are not entirely amenable to planning and, secondly, risks that are linked to legal commitments done by the Government but whose materialisation is uncertain.

Budgetary risks arising from expenditures that are not entirely amenable to planning focus most of the Ministry of Finance's attention. They comprise the public-sector payroll[24], tax expenditure and debt interests' payments, which are identified, measured and discussed in the budget documentation. Measures for mitigating these risks have been established in most cases, as summarised below:

- With regards to public sector payroll, the LOLF instituted a ceiling on State employment ("*plafonds d'emploi*") since 2006, which was extended in 2009 to State operators;
- Tax expenditures, which have grown almost constantly over the last decades, are measured and described in the State Budget Act and have been progressively submitted to a set of prudential rules, as described in Box 6;
- Risks associated with interest rates are also closely monitored. In particular, the impact of a 1% increase in interest rates on debt interest spending of the next two years is assessed annually by the Directorate General for the Treasury and Directorate for the Budget and disclosed in the State Budget Act, as well as considered for defining the debt management strategy.

A number of risks that are linked to legal commitments done by the Government, but whose materialisation is uncertain, are also identified in budget documents and closely monitored:

- State guarantees are specified, quantified and authorised in the State Budget Act and their stock (as well as the overall stock of contingent liabilities) measured in the year-end accounts presented to Parliament;[25]
- Costs associated with PPPs are disclosed in the State Budget Act and total liabilities are measured in the year-end accounts. Strict legal requirements have been set for entering into PPPs in France and an Infrastructure Financing Advisory Unit ("*Mission d'appui au financement des infrastructures*") is tasked with providing advice and support to public entities in this regard.

Other significant budgetary risks are identified but are not measured or discussed in budget documentation. They include:

- Risks associated with natural disasters are monitored by the Directorate for the Treasury. A public-private sectors risk sharing mechanism system is expected to limit potential costs for public finances in case of a natural disaster;[26]
- Risks associated with SOEs, monitored by the Ministry of Finance's Shareholding Agency ("*Agence des participations de l'État*", or APE). The Shareholding Agency's remit is to act as a shareholder for the Government in order to "develop its assets, maximise the value of its stakes" but also minimise its financial risks.

SOEs financial situation is shown in their audited financial accounts and discussed in the annual report of Government Shareholding Agency;[27]

- Risks associated with the financial sector are monitored by the High Council for Financial Stability ("*Haut Conseil de stabilité financière*", or HCSF). The High Council for Financial Stability is tasked with supervising the financial system for safeguarding its stability and ensuring a sustainable contribution of the financial sector to economic growth.

Notwithstanding all actions taken by the government to identify and address budgetary risks, there is not yet a systematic approach for measuring, disclosing and mitigating budgetary risks in France. It is therefore difficult to form a clear and comprehensive view of the full range of pressures that could potentially affect public finances and assess the completeness and relevance of policies in place for limiting these pressures.

For example, risks associated with tax policy were only just recently highlighted due to the sharp increase of tax credits liabilities and provisions for tax litigations reported in the year-end financial accounts. In the wake of a ruling by the French Constitutional Court bearing unprecedented fiscal consequences, a mission of the General Inspectorate for Finances ("Inspection Générale des Finances", or IGF) was launched to identify possible monitoring and mitigation strategies.

Beyond short and medium term budgetary risks, long-term sustainability of public finances is formally assessed as part of the European Commission's Aging Report, published every three years as well as the European Commission's yearly Debt Sustainability Monitor. These documents present impacts of long-term demographic and spending projections on debt levels, based on hypothesis jointly developed between the European Commission and Member States. Sustainability of public finances is also discussed in a chapter in the annual Stability Programme, the contents of which, largely draws from the Aging Report and the Debt Sustainability Monitor.

The Ministry of Finance does not publish its own assessment of the long-term sustainability of public finances but several such documents are elaborated by other public institutions. In particular, the Pensions Advisory Council ("*Conseil d'orientation des retraites*") was also established by Decree in 2000 with a remit for overseeing pension regimes within the overall social security system and proposing policy evolutions for both insuring sustainability of the pension system and not impairing living standards of pensioners. The Pension Advisory Council is comprised of parliamentarians, senior officials, experts and representatives of civil society and works under the auspices of the Prime Minister's Commissariat-General for Strategy and Foresight (so called "*France Stratégie*").[28] Moreover, since 2014, the Pension Steering Committee ("*Comité de suivi des retraites*"), an independent authority, has the responsibility to publish an annual opinion on the situation of the pension system with regard to its statutory objectives, especially its short and long-term financial viability.

Box 6. France: Managing tax expenditure

Tax expenditures are defined in France as "legal or statutory measures (tax deductions, tax credits, tax exemptions, rate relief) that imply lower tax revenues for the State compared to a "normal" tax".

The "Ways and Means" appendix to the State budget Act discloses a list of new tax expenditures. For all tax expenditure, it shows the number of recipient and cost estimation for previous, current and following year. In addition, the cost of tax expenditure associated with each programme of the budget is measured in the annual *Performance Plan*. The "Ways and Means" will also include, starting from 2019, a detailed analysis of the 10 most significant tax expenditures.

Several means have been used for monitoring and mitigating risks associated with tax expenditures over the years, which can be summarised as follows:

- Since 1980 (1980 State Budget Act), the government is required to evaluate tax expenditures in the "Ways and Means" appendix to the State Budget Act;
- Since 2001 (LOLF): each budgetary programme report includes an evaluation of associated tax expenditures;
- Since 2009 (Law on the Programming of Public Finances 2009-2013): new tax expenditure must be compensated with the ending of another one, new tax expenditure must be evaluated within 3 years;
- Since 2014 (Law on the Programming of Public Finances 2014-2018): tax expenditures and tax credits are capped every year;
- Since 2013: several meetings are held every year in May between the Budget Directorate and the line ministries, the so called tax policy conferences.

Source: Authors.

4.6. Summary assessment

In France, macroeconomic and revenue forecasts provide a comprehensive picture of the medium-term perspective for general government finances. The credibility of macro-economic forecasts, in particular, has notably increased since the establishment of the High Council for Public Finances, the French Independent Fiscal Council.

The medium-term dimension of budgeting is also strong. Laws on the Programming of Public Finances, introduced only a few years ago, represent an important step forward that profoundly changed budgetary processes by setting medium-term fiscal targets for each level of government, anchored to government commitments formulated in Stability Programmes, the main instrument of the EU surveillance of national budgetary policy.

Also, expenditure rules set clear parameters for meeting fiscal targets for the State. Their efficiency increased over time, as their scope was revised to discourage opportunistic changes in spending. These spending rules were enforced particularly rigorously over the last years. For social security, a cap on health-care spending was introduced in an attempt to keep expenditures under control. To prevent optimistic policy assumptions or unanticipated outlays, which regularly incurred in initial years, monitoring and corrective mechanism have been introduced that have prevented major slippages and deviations from fiscal targets.

Finally, to ensure the resilience of medium-term plans, a number of short and medium-term budgetary risks, in particular with regards to payroll and tax expenditures, are closely monitored by a variety of actors within and outside the Ministry of Finance. Longer-term sustainability is assessed as part of forecasting exercises co-ordinated by the European Union.

Reflecting the experience of the initial years of medium-term budgeting, the Ministry of Finance could now look into improving some of its practices, as the current framework has not proven constraining enough to meet ambitious fiscal targets in the past.

Optimistic biases with revenue forecasts have been frequent in the past and there should be a more rigorous, detailed and transparent approaches to their formulation. Such transparency is particularly important as these forecasts are not submitted to systematic review by the French independent fiscal institution.

A priority area for reform for the Government should be to ground its medium-term plans on clear expenditure prioritisation done at the political level and to set, on this basis, more detailed parameters for preparing subsequent budgets. This could be achieved by including a phase of governmental deliberation and also through a spending review, both ahead of the preparation of the Law on the Programming of Public Finances. This would, in turn, allow line ministries to establish reliable multi-year spending forecasts at line item level.

Unforeseen events have made it particularly difficult, in recent years, to deliver medium-term plans in France. Experiences of peer OECD countries highlight however that a "fiscal margin" could efficiently act as a buffer to absorb emergencies or new priorities that inevitably arise after medium-term plans have been laid out.

Finally, budgetary risks analysis is scattered and factored only to a very limited extent in the policy-making process. Building on existing practices, the Ministry of Finance could therefore strengthen its practices is this area, and consider options for publishing a summary report on budgetary risks and management responses that would inform in particular consideration and debates about possible pressures for delivering medium-term fiscal targets.

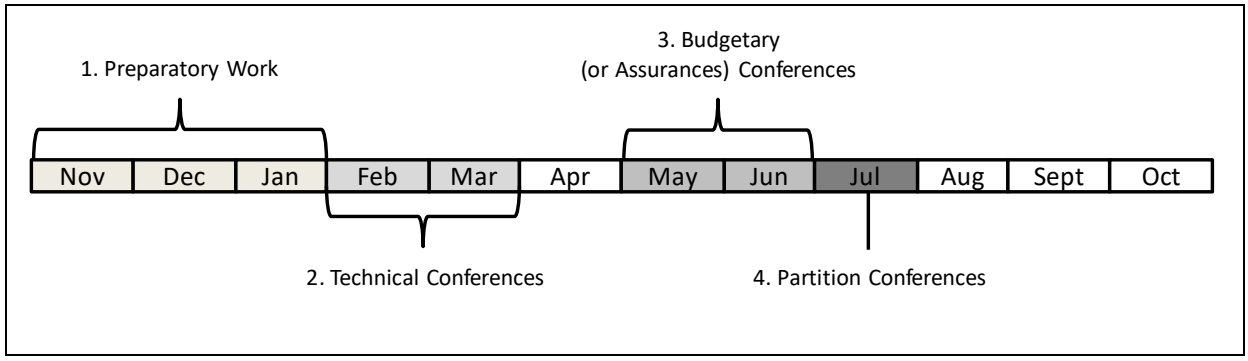
5. Annual budgeting processes for the State

5.1. Budget Formulation

For the State, the annual budget process is structured around four "rounds" of bilateral discussions between the Directorate of the Budget and line ministries: the Preparatory Work ("*travaux internes prospectifs et stratégiques*"), Technical Conferences ("*conférences techniques*"), Budgetary Conferences ("*conférences budgétaires*") and Partition Conferences ("*conférences de repartition*"), as shown in Figure 12 and described in detail below.

It is to be noted that, in 2017, to foster the culture of collective decision making and commitment to fiscal targets, the Prime minister started the annual budget formulation with a Governmental seminar aimed at discussing ministerial ceilings in a single decision moment involving all members of Government. The budget formulation was subsequently rolled out according to "traditional" bilateral procedure.

Figure 12. France: The annual budget formulation



Source: Authors, based on Directorate of the Budget information

In November of the year before the budget formulation gets under way in earnest, the Directorate for the Budget commences its Preparatory Work - that is the process of identifying potential sources of savings. This is an internal but strategic phase for the Directorate of the Budget, during which it determines, based on its monitoring of budget execution and insight in government policies and priorities, the "room for reform" in advance of the budget formulation and formulates proposals to the Minister of Finance.

Following Preparatory Work, so-called Framework Letters ("*lettres de cadrage*") are sent to line ministries after being drafted by the Directorate of the Budget, endorsed by the Cabinet of the Budget Minister, the Cabinet of the Prime Minister and ultimately signed by the Prime Minister. Framework letters reflect ceilings and expenditure rules set in the Law on the Programming of Public Finances; provide guidelines for evolution of expenditures and public employment; and fixes as appropriate other grand lines of annual budgetary policy.

The first bilateral discussions between the Directorate of the Budget and line ministries, the Technical Conferences, start in February. Technical Conferences focus on analysing budget execution of the previous and current years. They also aim at measuring costs associated with existing policies ("*tendanciel*") and potential new measures.[29] The latter have in practice always consisted of savings in order to attain the objectives of the expenditure rules ("*mesures d'économies*").

Budgetary Conferences are long, separate rounds of bilateral negotiations that take place in May and June to confront views of the Directorate of the Budget and line ministries on resource allocations for the upcoming budget year.[30] As budgets are formulated and voted on both cash and commitment bases, both appropriations ("*crédits de paiement*", or CPs) that are uppers limit for cash outlays over the budget year and commitment authorisations ("*authorisations d'engagement*", or AEs) that are upper limits for entering in to a contract that span more than one year (e.g., investment projects) are discussed as part of these conferences.[31]

Budgetary Conferences are expected to reflect discussions and orientations from the Technical Conferences, but antagonistic positions nevertheless regularly occur that have to be resolved by the Prime Minister. In fact, each year, hundreds of items are finally decided by the Prime Minister and his Cabinet as part of the so-called arbitration process. Performance conferences take place simultaneously, to discuss performance objectives and indicators that will be disclosed in the budget proposal, based on results achieved in the previous years and potential recommendations of the Court of Budgeting in France

Results of Budgetary Conferences are then summarised in a table showing resources allocated to each mission for the upcoming budget year (or for the whole period covered by the State triennial budget), which is included in the Pre-Budget Report ("*Rapport préparatoire au débat d'orientation des finances publiques*") presented to Parliament before 30 June each year. The Pre-Budget Report also explains main changes to the government's economic and fiscal policies and expected path of the general government finances for the next year.

Following publication of the pre-budget report, the Prime Minister's Ceilings Letters ("*lettres-plafond*") notify ministries of their final resources for the upcoming budget year. The letters contain the cash and commitment ceilings per mission and programme, ceilings on earmarked taxes for the State operators and employment ceilings for the ministries and State operators. The ceiling letters also contain guidelines for policy adjustments required to attain the implied savings.

Partition Conferences are then held in July to finalise the partition of commitment authorisations and expenditures per programme, provided that the mission ceiling are respected. In particular, partition conferences aim at ensuring that all "unavoidable" - that is expenditures that the State already committed to towards third parties - are adequately covered.

At this stage, two inter-ministerial meetings are also held between the Directorate of the Budget and the finance directorates of line ministries. One fixes the transfers between ministries as a consequence of policy reorganisations (i.e. transfers of tasks between ministries), allowing the transformation of "constant" ministerial budgets ("*à perimètre constant*") to current budgets ("*à perimètre courant*"). The other fixes the number and nature of the articles of the State Budget Act (not more than 30 articles). Additional arbitration by the Prime Minister (or his Cabinet) may be necessary at the ultimate stage of the partition conferences.

The budget proposal is then finalised in August and September and presented in Parliament in October.

Laws on the Programming of Public Finances (and the State triennial budget which is enshrined within the Law) are formulated as part of these four stages. In years when a Law on the Programming of Public Finances is prepared, the State triennial budget and annual budget are established simultaneously as part of Technical, Budgetary and Partition Conferences.

In the year that follows the adoption Law on the Programming of Public Finances, the annual budget is prepared on the basis of ceilings set in the previous year's State triennial budget, even though there is no legal ground for such a requirement. Budgetary Conferences are then called Assurance Conferences ("*conférences de sécurisation*"), as discussions are supposed to focus on a limited number of to resource reallocations, in light of budget execution in the first year or unexpected circumstances;

In the second year that follows the adoption of the Law on the Programming of Public Finances, a new Law is prepared and the State triennial budget and annual budget are again established simultaneously.

Table 6. France: Annual calendar for budget formulation (State and Social Security)

February	1. The Prime Minister sends a framework letter to the line ministers, which provides objectives for the expenditure subjected to budget norms, preliminary ceilings for expenditures per mission and an approximate estimate of the necessary savings. 2. The "technical conferences" are held between the Directorate for the Budget and officials of the line ministries. The conferences focus on existing policies costing and possible savings. 3. The Commission publishes its country reports assessing economic and social policies.
April	1. The Government presents the EU stability programme, containing objectives for expenditure, revenues and the budget balance for the three following years to Parliament, together with the advice of the High Council of Public Finance. 3. The stability programme is sent to the European Commission. 4. The "performance conferences" between the Directorate for the Budget and officials of the line ministries are held. The focus on performance reports to be attached to the State Budget Act.
May	1. The Government sends the final budget law over the previous year to Parliament, together with a report of the Court of Accounts and an opinion of the High Council of Public Finance.
June	1. The "budgetary conferences" or (in years when no new law of programming is made) "assurance conferences" between the Directorate for the Budget and officials of the line ministries, started in May, are continued and concluded. The conferences focus on the expenditures per programme and the necessary savings. 2. The European Commission sends to the Council of the EU its proposal for recommendations to the Member States, on the basis of their stability programmes. 3. The Court of Accounts publishes its report on the perspectives of the public finances.
July	1. The EU council sends its recommendations for the upcoming budget to the Member States. 2. Parliament debates the multi-year perspectives on the basis of a report of the Government, which takes the recommendations of the EU Council into account, complemented by a report from the Court of Accounts. 3. The Prime Minister sends "ceilings letters" to the line ministries which definitely fix the expenditures per mission and the employment ceiling per ministry. The "conferences of partition" are held that fix the expenditures and employment per programme.
September	1. The commission of the social security accounts examines the accounts of the social security domain covered by the annual law on the financing or social security of the current year and the following year. 2. The proposed State Budget Act for the following year is sent to the National Assembly before the first Tuesday in October, together with the advice of the High Council of Public Finance. 3. In years when a new law of programming is made, the Government simultaneously sends the proposed law of programming.
October	1. The Government sends the proposed Social Security Financing Act to the National Assembly before 15 October. The law has simultaneously the role of a supplementary budget law for the current year, the final budget law of the previous year and the new budget law for the upcoming year. 2. The Member States of the euro area send before 15 October "their proposed budget plan" for the following year to the European Commission; in the case of France this is the Economic, Social and Financial Report, attached to the budget law. If the Commission considers that the plan implies a serious risk flowing from non-compliance with the Recommendation of the EU Council it can ask for the submission of a new proposed budgetary plan.
November	1. The European Commission gives its opinion on the compliance of the proposed budget law with the recommendations of the EU Council. 2. The Government submits a supplementary budget law for the current year to the National Assembly.
December	1. The State Budget Act and the annual law on social security financing for the following year, as well as the programming law in years when such a law is made, are approved by Parliament, promulgated by the President of the Republic and published in the State Journal in the last days of the month. 2. The supplementary budget law of the current year is approved and promulgated nearly at the same time.

5.2. Budget execution

Budget execution starts on 1 January and follows a process that constantly involves actors from both line ministries and the Directorate of the Budget. It is characterised by both considerable autonomy granted to line ministries on spending decisions (i.e. nature of spending) and tight controls on compliance with spending limits (i.e. level of spending).

The LOLF outlines the "core function" of programme managers in an orderly and efficient budget execution. Their task is defined as policy development and execution according to performance objectives, for which they are granted very substantial autonomy in determining the use of spending authorisations granted at the level of their programme. The only legal limitation to their discretionary decision making is a ceiling on wages.

Within each line ministry, a chief financial officer ("*directeur des affaires financières*", DAF) provides advice, expertise and assistance to programme managers. Their core role is to guide the budget preparation and execution but they may also define a framework for the ministerial management doctrines and decisions on the use of resources (e.g. purchasing policy and real property policy). They steer the cost analyses within the ministries, co-ordinate and consolidate the programme managers financial and performance reports at year-end.

Budgetary Controller and Ministerial Accounting Officers ("*Contrôleur budgétaire et comptable ministériel*", or CBCM) are officials representing the Ministry of Finance located in line ministries or State operators. CBCMs combine budgetary and accounting functions - that is the assessing the sustainability of line ministries' financial operations (budgetary control) and ensuring compliance of expenditure with all applicable rules (the traditional accounting officer role), in accordance to principles of the so called expenditure chain ("*chaine de la dépense*") as described in section 5.4.

Tight controls are exercised by the Directorate of the Budget for monitoring budget execution and ensuring that programme managers do not exceed spending limits.

At the beginning of the year, CBCMs review the partition of appropriations and employment within each programme and appraise recruitment plans prepared by line ministries and State operators, and through the year, when line ministries' annual or multi-annual commitments, such as investment projects, are vetted by the CBCM.

In practice, this means that contracts entered in to by line ministries are to be approved by the CBCM prior to being recorded against commitments authorisations (AEs) voted in the State Budget Act. For AEs that are running over several years, cash outlays (CPs) are recorded in budgetary accounts over future budget years. Budgetary accounts maintained by the CBCM show therefore at any point in time 1) AE approved in budget law; 2) AE consumed through legal commitments; 3) AE unused/available for new commitments; 4) CP authorised in budget law; and 5) payments made or CP consumed.

Through the course of the year, regular controls are done by the CBCMs. The Directorate for the Budget also puts up three execution forecasts (in March, June and October), in close consultation with the line ministries. A summary of each forecasting exercise is presented to the Minister of the Budget, accompanied if required by the list of corrective measures for insuring compliance with expenditure rules.

The last execution forecast (of October) is coupled to the elaboration of an advance decree for the end of execution and a Supplementary State Budget Act ("*Loi de finances rectificative*"), which transfers and cancels appropriations as needed for compliance with expenditure rules. For that purpose the last forecast is preceded by a round of negotiations

with the line ministries in September ("*conférences de fin de gestion*"), which may lead to arbitrations by the Prime Minister.

Lastly, in the month of December the Directorate for the Budget puts up a daily monitoring survey in order to ensure the compliance with the expenditure rule at the end of the year.

5.3. Flexibility measures

Under certain circumstances and within given thresholds, a number of flexibility measures ("*mesures de régulation*") are authorised by the LOLF thorough budget execution. They include reallocations between appropriations, cancellation of appropriations, supplementary appropriations, as well as increases or decreases of precautionary reserves. All flexibility measures must be notified to Parliament, either at budget approval stage or thorough the year. Net supplementary appropriations, or reallocations beyond those thresholds, can only be provided by a supplementary budget.

According to the LOLF reallocations between appropriations can take two forms: remittances ("*virements*") and transfers ("*transferts*"). Remittances modify the partition of appropriations within a ministry and are allowed within the limit of 2% of the appropriations authorised for a programme in the initial budget law. Transfers modify the partition of appropriations between ministries and are allowed under the condition that the appropriations remain reserved for activities of the same nature (for instance appropriations for the purpose of road safety can be transferred from one ministry to another). Remittances and transfers are implemented by decree and the relevant committees of Parliament must be informed in advance of issuing the decree.

Cancellation of appropriations is possible in order to prevent deterioration of the budget balance as defined by the latest Budget Act. This requires a decree as well. The relevant committees of Parliament must be informed before the annulation decree is issued.

In case of emergency, the Council of Ministers can also reallocate appropriations between programmes. Such reallocations are caped to 1% of the total amount of appropriations. The emergency situation must be explained and communicated to relevant parliamentary committees, which are required to provide an opinion on the reallocation. This requires an advance decree ("*décret d'avance*").

Reallocations and cancellation of appropriations must be regularised in the first upcoming supplementary State Budget Act and the Court of Accounts must express its opinion on these measures.

Lastly, the LOLF provides that appropriations can be set in a "precautionary reserve", which is not a separate contingency reserve but a "freezing" of appropriations allocated to programmes. The rate at which appropriations are set in precautionary reserve is communicated to Parliament with the State Budget Act. Appropriations can be made available during budget execution by a decision of the Minister for Budget.

Freezing of appropriations is not exceptional in OECD countries. However, levels of the precautionary reserve sharply increased in recent years (see Figure 13).[32] This was due partly to the reluctance of previous Governments to include in the State Budget Act spending related to highly uncertain but not entirely uncommon events, such as recurring minor natural disasters or overseas military operations, which therefore had to be funded during budget execution.

This shifted part of discussions on spending priorities from the formulation to the execution phase of the budget process and also significantly constrained the capacity of programme

managers to exercise real autonomy in budget execution, as they could not use, in practice, the full budget allocated to their activities.[33]

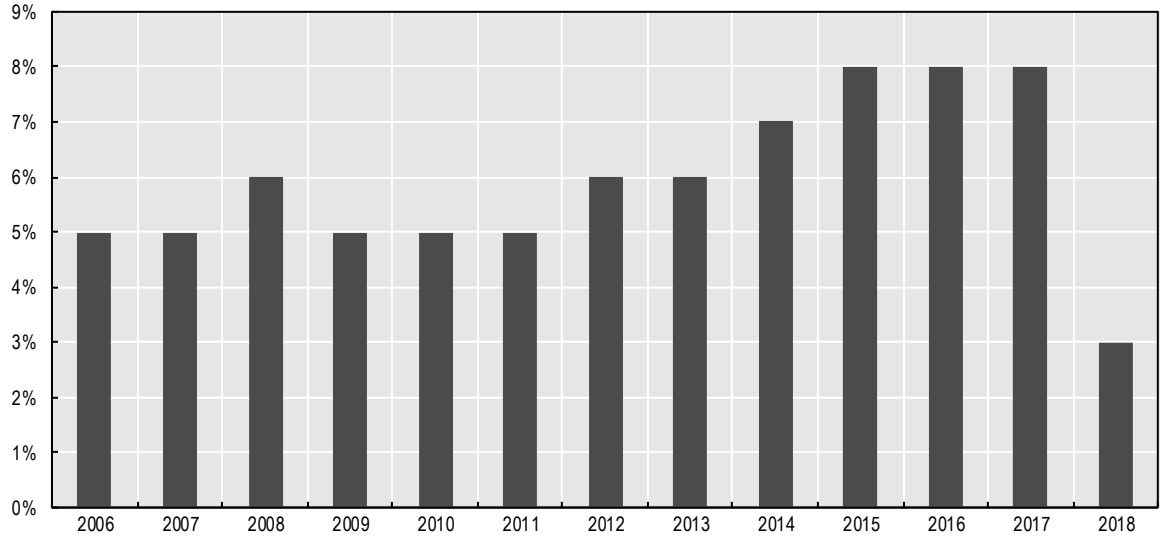
In 2017, with the support of the new Government, the Directorate of the Budget, aware of these high administrative costs, asked line ministries to prepare more conservative budgets and reduced accordingly the level of the precautionary reserve to 3% in the 2018 State Budget Act. The underlying rationale for this new approach was that the precautionary reserve should be used as an operational control during the year, as intended initially, rather than a *de facto* contingency reserve.

In 2018, line ministries will therefore have certainty on the level of their resources, hence better exercise their autonomy on spending decisions, but their budgets are expected to be drawn in a way that allows addressing spending pressures - in other words, individual line ministries, and ministers, shall not consider frozen appropriations as a way out of expenditure prioritisation decisions.

Going forward, one option to further minimise potential disruptions of line ministries spending plans while keeping room for manoeuver in case of emergencies, would be to replace the precautionary reserve by a contingency reserve) - that is an allowance in the budget that is completely distinct from resources allocated to programmes. Another advantage of this mechanism is that it would generate greater transparency on claims for additional funding.

Figure 13. France: Precautionary reserve level

% of total expenditure (excluding staff expenses)



Source: Directorate for the Budget.

5.4. Expenditure Control

In France, expenses are controlled according in an orderly process, the so called expenditure chain, which strictly separates the roles of authorising officers ("*ordonnateurs*") on the one hand, and accounting officers ("*comptables*"), on the other hand. The former is the minister or his representative, and the latter is always an official of

the Ministry of Finance. Traditionally, roles of the ordering and accounting officers were distributed as follows:

- Ordering officers were tasked with in 1) entering in to contracts as needed to accomplish their stated mission and objectives; 2) establishing that the service is provided, that is to say that the creditor has complied with the contract and the performances prescribed by the contract have been delivered (verification stage); and 3) ordering the CBCM to pay the corresponding amount (ordering stage);
- Accounting officers were tasked with 1) verifying availability of appropriations prior to any legal commitment done by line ministries; 2) realising compliance controls prior to payment; and 3) realising the payment as such.

Over the course of time, the expenditure chain and roles of authorising officers and accounting officers have been maintained. However, tasks performed have evolved in practice, due to the modernisation of IT systems and business processes, with for example, the ordering of certain payments (such as the salaries and pensions of public employees) not formalised as such, but rather validated by the ordering officials after payment orders have been automatically generated and transmitted to the accounting officer by an ICT system.

As risk management has been very significantly strengthened over recent years (through internal control, internal audit and external audit) and the State IT system, the so-called Chorus, manages all financial operations in a secured workflow, there have been calls in recent years for further simplifying budgetary and accounting controls.[34]

The recent adoption of the GBCP helped in achieving this objective, as it allows expenditure control to be done in shared service centres and adjusted based on assessment of the internal control environment in each ministry and operator. Notwithstanding this innovation, as the Ministry of Finance tries to foster greater fiscal responsibility in line ministry, there could be a case for further simplifying budgetary and accounting controls for these line ministries and operators that have a good record on compliance with ceilings set in their budget and other legal requirements (principle of "earned autonomy").

5.5. Cash and debt management

Efficient cash management is a cornerstone of orderly budget execution in France. The Ministry of Finance maintains a treasury single account (TSA) at the French central bank ("*Banque de France*") to prevent the build-up of dormant cash, reduce the overall debt of general government, and impact positively the yields France obtains in the market. The TSA is also believed to offer greater security to public entities for their deposits. The scope of the French TSA is particularly wide, as it covers balances of the State, its agencies and local government.

An independent agency, the Agency of the French Treasury ("*Agence France Trésor*", or AFT) was created in 2001 for performing cash management of the State "so that it can meet its financial commitments at all times, whatever the circumstances" and managing debt "in the taxpayers' best interest". This agency operates under the auspices of the Directorate General of the Treasury; works in close co-operation with the Directorate for the Budget and the Directorate General of Public Finances; and reports to the Minister of Finance.

AFT is assisted in the management of government debt by a Strategic Committee, which meets twice a year to provide advice on debt and cash management procedures and policies. The Strategic Committee's members have a broad spectrum of skills and expertise. One of

the Strategic Committee's key roles is to give its own interpretation of the principles governing the government's issuing policy and cash management procedures.

In its cash management role, AFT is tasked with the day-to-day management of the TSA. To ensure that financial resources are available to meet needs of public entities, AFT monitors a complex and very effective system of profiling cash disbursements, communicated almost on a daily basis by the large network of public accountants of the Directorate General of Public Finances. Profiling of cash disbursements is prepared for the whole year and regularly updated. In addition, AFT monitors expenditures and receipts throughout the day in real time. The AFT also invests (and if necessary borrows) surplus funds in the money markets, with a view to maintaining a low and stable end of day balance in the TSA and ensuring the best return on the investment of surplus cash.

Debt issuance is done according to a public strategy, grounded on several principles rigorously applied by the AFT, among which doing regular, transparent and predictable issuance; promoting innovative management; and developing the most liquid and deepest possible French debt market. Principles do not however include the control of fiscal risk unlike other OECD countries. One notable recent innovation is the issuance of the first French sovereign green bond, "the Green OAT", which marked France's willingness to be a driving force for the implementation of the goals of the December 2015 Paris Climate Agreement.[35]

5.6. Summary assessment

With regards to the formulation of the annual budget, the move to top-down budgeting, a necessary complement to medium-term planning, is clear in France. For the State, in particular, the bilateral process between line ministries and the Directorate of the Budget (with arbitrations of the Prime Minister) is strongly influenced by the ceilings set in the State triennial budget (and the Laws on the Programming of Public Finances indeed) and related expenditure rules.

In addition, the practice, introduced in 2017, of conveying a governmental seminar at the outset of the annual budget formulation should have further positive effects on strengthening top-down budgeting, as it should help gaining wider political appreciation of medium-term targets and related budgetary constraints and realities.

In the area of budget execution, although public managers' autonomy is a cornerstone of the LOLF, controls exercised by the Ministry of Finance have remained strong. In particular, over the last years, freezing of appropriations in a precautionary reserve and in-year reallocations of resources were used by the Directorate of the Budget as the principal means of ensuring compliance with expenditure rules in the context of recurring emergencies and budgetary pressures.

The rate of the freezing of appropriations was significantly decreased in 2017 in order to give line ministries greater certainty on the level of their resources and better exercise their autonomy on spending decisions. Accordingly, their budgets have been drawn in a way that allows addressing spending pressures. Going forward, one option to consider for minimising potential disruptions of spending plans while keeping room for manoeuver in case of emergencies, would be to establish an allowance in the budget that is completely distinct from resources allocated to programmes.

Expenditure control is done through the so called expenditure chain, which strictly separates the roles of authorising officers ("*ordonnateurs*") on the one hand, and accounting officers ("*comptables*") on the other. High-quality cash management also

underpins orderly budget execution. Cash balances of line ministries, public agencies and local government are fully centralised, with profiling of upcoming disbursements provided on a daily basis by the very large network of public accountants, who also control and process all payment orders.

6. Transparency in budgeting

6.1. Budget documentation

Consistent with the LOLF's transparency objectives, the State Budget Act provides a wealth of financial, performance and background information for Parliament's budgetary discussions. The outline and content of the State Budget Act is strictly provisioned by the *LOLF*. It consists of three "parts": the General Budget ("*Budget général*"), the special accounts and Appendices ("*Annexes*").

The General Budget presents all State expenditures and revenues, except for revenue earmarked for in special accounts. It also includes a series of legal provisions relating to taxes, changes in entitlement programmes, or general provisions for exerting fiscal discipline over public agencies.[36]

Performance Plans ("*Projets annuels de performance*", or PAP) detail appropriations according to the LOLF nomenclature (missions, programmes and actions, see Box 7). Within each mission, programme and action, appropriations are further detailed by nature. Performance Plans also provide a rationale for all expenditure ("*Justification au premier euro*") as well as a cost analysis for each programme. Furthermore, performance targets and indicators are assigned to all proposed appropriations both at mission and programme levels, as explained in more detail in the following section.

Lastly, Appendices to the budget include:

- The Economic, social and fiscal report ("*Rapport économique, social et financier*"), provides economic and fiscal forecasts (including assumptions and methodologies), analyses trends for central Government revenue and spending, and explains financial flows between public entities. It is the draft budget plan submitted to the European Commission;
- Orange Books and Yellow Books ("*Oranges budgétaires*" and "*Jaunes budgétaires*"), which provide specific information to inform the Parliamentary debates. For example, they analyse in detail levels of appropriations in favour of specific beneficiaries (such as transfers to public agencies), aggregate appropriations allocated to different ministries for implementing shared public policies (for example, fight against drug traffic or promotion of tourism), and present the results of spending reviews undertaken by the Directorate for the Budget ;
- The *ex ante* assessment of new measures ("*Evaluation préalable des articles de la loi de finances*"), which is a detailed presentation and assessment of new revenue and spending measures, including their medium-term financial impact;
- The Ways and Means report ("*Voies et Moyens*"), which outlines revenue sources, in particular taxes, and describes and evaluates tax expenditures ("*niches fiscales*") in its Volume II, by type of tax, by mission/programme and by type of beneficiary.

In addition to core budget documents, the Ministry of Finance publishes an extensive set of fiscal information, among which national accounts for the general government, an annual

report on SOEs prepared by the APE, an annual report on debt and cash management prepared by the AFT.

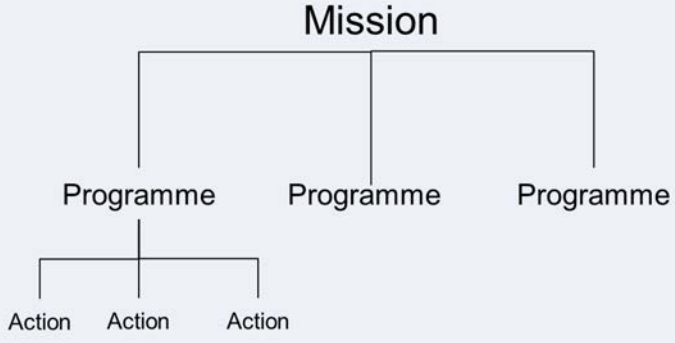
Although the quality and completeness of the budget documentation is recognised by most actors, the Directorate for the Budget have been increasingly concerned in recent years that the volume of the State Budget Act was limiting its usefulness and clarity for Parliament and the general public. A number of initiatives have already tried addressing these issues. The 2012 Organic Governance Law merged three reports in to one (the Economic and fiscal report). The Performance Plans and Performance Reports have been simplified, by the reduction of two-thirds the length of policies' cost analysis. The length of budget documents has decreased in total of around 20% during the last decade. However, it still amounts to more than 11 000 pages a year.

The Ministry of Finance also offers regular opportunities for parliamentarians and citizens to provide their feedback on the budget documents. The Directorate for Budgets undertakes each year a formal survey of parliamentarians' satisfaction with budget documents, and collects suggestions for improving documents and reporting practices. The 2016 survey shows that the bulk of parliamentarians (87%) are satisfied with the completeness, quality and transparency of the information provided. Public Finances Committees in the National Assembly and Senate also provide regular informal feedback on the merits and limits of fiscal reports.

In 2017, the Directorate for the Budget also launched an online survey for all citizens and other users to provide feedback and suggestions on budget documents and the Performance Forum website.

Box 7. France: State budget nomenclature after the LOLF

Before the LOLF, the State Budget was broken down by ministry and by "chapters", which were considered to give limited insight on the aim of budget appropriations and the cost of administrative policies and structures. Moving away from the traditional budget presentation, the LOLF requires the State Budget to be built on a three-tier structure that is by missions, programmes and actions.



Missions correspond to the main government policies. A mission, in almost all cases, is the responsibility of a single ministry, but a limited number of missions are "multi-ministry," pulling together all the programmes, such as research, conducted by different ministries that relate to the same general policy. Parliament votes the budget by mission. Budget generally comprises around 30 missions, to which around 100 objectives and

indicators are associated with. For each mission, a Performance Plan ("*Projets annuels de performance*", or PAP) and Performance Report ("*Rapports annuels de performance*", or RAP) is prepared each year.

Missions are broken down into **programmes**, which constitute operational means by which public policies will be implemented. A programme is always the responsibility of a single ministry. Parliament may alter the distribution of expenditure among the programmes within a given mission. Each programme has its own specific objectives and performance targets. Budget generally comprises around 120 programmes, to which 400 objectives and 800 indicators are associated with.

Programmes are broken down into actions, which correspond to resources allocated to units that will deliver public policies.

Within this three-tier structure, appropriations are further detailed into "titles", reflecting the economic nature of the expenditures. There are seven titles: "Title I": attributions to the public powers (President of the Republic, Parliament, etc.); "Title II": personnel expenditures; "Title III": other operational expenditures; "Title IV": charges of public debt; "Title V": investments; "Title VI": expenditures of intervention (subsidies, social benefits, etc.); and Title "VII": expenditures associated with financial operations (loans, advances, capital transfers).

Source: Directorate of the Budget and Authors.

6.2. Performance objectives and indicators

As outlined in Section 2, assessment of public policies' results was one of the core objectives of the LOLF, which defined for that purpose three categories of performance objectives and indicators associated with missions and programmes: effectiveness (in socio-economic terms) for beneficiaries; quality of services for users; and efficiency in the sense of optimisation of resources for taxpayers.

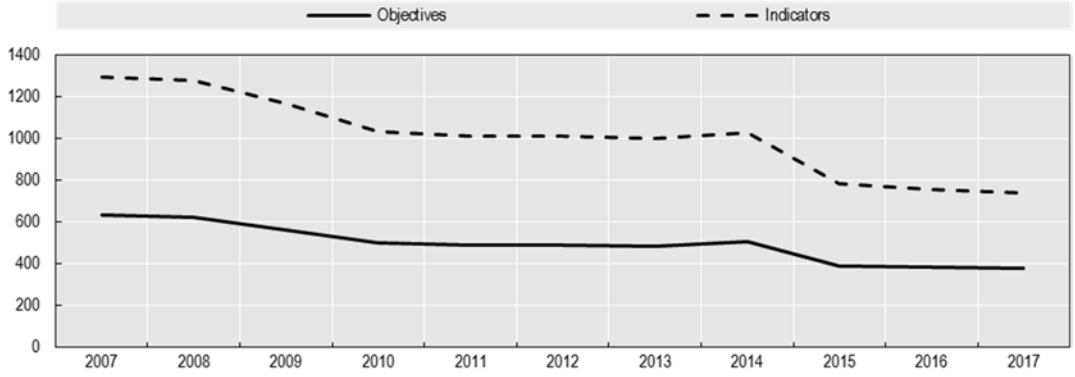
In keeping up with the policy and performance orientation of the budget documentation introduced by the LOLF, since 2006, performance objectives and indicators are assigned to all proposed appropriations both at mission and programme levels in annual Performance Plans and Performance Reports. Performance objectives and indicators fall under the responsibility each ministry or operator, which are responsible of their legibility and quality.

Overall responsibility for the performance framework however lies with the Directorate of the Budget, which has been promoting the "performance culture" both within and outside the administration and constantly sought to improve performance information over the last decade. To that purpose, the Directorate of the Budget directly engages with line ministries' Chief Financial Officers, organises trainings, establishes guidance, realises quality reviews, etc. Even though results are missing at year-end for between 10 to 15% of indicators, quality of the information has increased over time, due to efforts of the administration and also annual reviews realised by the Court of Accounts.

Like in other OECD countries with the most experience with performance budgeting, instructions have been provided to line ministries for a number of objectives and indicators in response to both the information overload for parliamentarians and administrative burden of reporting for public managers. Between 2007 and 2017, the number of performance indicators has steadily decreased from 1 173 to 765, giving priority to those

that most closely reflect public policies' strategic objectives and were most useful for management purpose.

Figure 14. France: Number of Performance Objectives and Indicators



Source: Directorate of the Budget.

There is broad agreement within and outside the administration that performance information is useful and even necessary, but questions remain on whether performance assessment shall be aimed primarily at policy appraisal or managerial decision-making. There is also clear disappointment in the limited use of performance information in the budget formulation process and scrutiny of results at year-end. All these questions are not unique to France. Several improvements are considered at the moment, such as systematically gathering parliamentarians' inputs on types of mission-level indicators that should be used in budget documentation; and adopting programme-levels indicators that are useful for routine management. In other words, the objective would be that ministers feel responsible and accountable for the achievement of their mission's objective towards Parliament (strategic objectives) and that programme managers feel responsible and accountable for the achievement of their programme's objectives towards the minister (management objectives). Such an approach would be aligned with best practices in other OECD countries.[37] With regards to defining strategic objectives, it is to be noted that, recently, a committee chaired by the Prime Minister pledged to further align performance indicators with Sustainable Development goals.

Successive governments have also been concerned with further highlighting broader and transversal strategic goals of social and environmental policy in France. To this purpose, since 2015, the Prime Minister's office presents annually a report ("*Nouveaux indicateurs de richesse*") on France's performance against 10 wealth and well-being indicators. These indicators include Economic development indicators such as FDI (OECD) and Doing Business (World Bank); Social progress indicators, such as healthy life expectancy at 65 by gender (OECD), percentage of 18-24 year olds with no qualification who are not in training (France Stratégie/Eurostat) and poverty gaps (World Bank); and Sustainable development indicators such as greenhouse gas emissions per unit of GDP (European Energy Agency/Eurostat). The Directorate for the Budget is now exploring innovative ways to present in the budget documentation resources and outcomes related to the Government strategic policies and agenda, and will be piloting gender budgeting in 2018.

6.3. In-year and year-end reporting

In year, the Public Accounting Directorate is required by legislation to publish budget outturns monthly ("*Situation mensuelle de l'État*", or SME). These documents report and comment on the central Government's cash movements; financial commitments; cash position, and debt level. Spending outturns are presented similarly to the budget (i.e., by public policy, programme, heading and category).[38] One month after the closing of the fiscal year, the Annual Budget Outturn ("*Situation budgétaire et financière de l'Etat*", or SBFE) is presented to Parliament by the Public Accounting Directorate. It shows annual budget outturns, and explains variations between the preliminary estimations of the fiscal balance established after the closing of the fiscal year, and the final figures.

The main accountability document at year-end is the Budget Execution Act ("*Loi de règlement*", or LR), which is presented to the Parliament in May. It shows final cash and commitment outturns by mission and programme against Parliamentary authorisation, the cash basis deficit or surplus, and accrual basis profit or loss. In addition, Performance Report ("*Rapports annuels de performance*", or RAP) (see Box 7) provide more detailed financial and performance information. Lastly, the Annual Reports of Principal Budget and Accounting Officers ("R*apport annuel du contrôleur budgétaire et financier*") identify and discuss fiscal and financial risks at ministries level. These reports are communicated to Ministers, Parliament, and the Court of Account, but are not available to the general public.

Since 2006, audited financial statements ("*Compte Général de l'État",* or CGE) are presented to Parliament as an appendix to the Budget Execution Act. All State assets, liabilities, expenses, revenues, and contingent liabilities are reported or disclosed in these financial statements. Civil service pensions are disclosed in a note to the financial statements. Accounting standards are established by an independent standard setting authority ("*Conseil de normalisation des comptes publics*", or CNoCP) and endorsed by the MoF. The primary reference for elaborating them is French private sector accounting standards, but they are generally consistent with international accounting standards.

Financial statements provide a wealth of information, but, so far, have been seen mostly as a "complement" to budgetary accounts, which remain the focus of Parliamentary attention. Consequently, one core objective for the Directorate for Public Accounting over recent years has been to provide accrual basis information that can better inform Parliamentary discussions on next year's budget and cash basis deficit target, and therefore strengthen budgetary decision making.

In particular, the management commentary sent to parliamentarians alongside the State financial statements includes a detailed bridge table reconciling and explaining differences between the cash basis and accrual basis deficits reported in the Budget Execution Act. The bridge table identifies financial operations that are not reported in the cash basis deficit because they did not involve an immediate exchange of cash (for example pending transfers to public corporations or liabilities related to tax expenditure), or are reported with different presentations (for example, investment is reported as capital expenditure in the budget and as an asset in financial statements).

Considerable efforts are also invested into making accrual information useful in its own right and not only as a complement to budgetary accounts. In particular, the Directorate for Public Accounting has worked on making accrual data understandable to a variety of non-technician reader, by publishing "Citizens' financial statements" - that is a four-page summary of the financial statements, which presents the key aggregates with infographics. In addition, a so-called Memento will be published from 2018, which will present data sets

covering over ten years and comment and analyse trends in assets, liabilities, revenue and expenditures reported in the financial statements.

One area in which the Public Accounting Directorate is also looking into at the moment is cost accounting. A number of pilots have been recently launched for testing how this could allow realising benchmarking of some Government units delivering back office services.

Recent stock-taking exercises (e.g. Court of Accounts, 2016) outline other improvements brought by accrual accounting. The introduction of accrual accounting made an essential contribution to the modernisation of the Government finance function and improvements to its processes. In short, public accountants' tasks shifted from compliance controls at the payment stage to financial controls covering significant financial risks and operations of Government. Exhaustive inventories of their assets and liabilities have allowed, for example, rationalising the State's real estate portfolio and reassessing the value of certain concession contracts. Maybe more importantly, accrual accounting brought under greater scrutiny from both the Court of Accounts and Parliaments a number of financial operations that budgetary accounting fails to disclose, such variations from one year to another of payables, increases in tax litigations or nature and scale of State's contingent liabilities.

6.4. Accessibility and clarity of fiscal reports

The Ministry of Finance has remained committed to a remarkable extent during the last decade to the spirit of the LOLF, which was to provide better, more legible information to Parliament and, more generally, to increase openness of Government on all fiscal matters. One notable outcome of this commitment to openness is the Performance Forum website.[39] This website classifies and discloses all budget documents (legal framework, budget preparation, budget execution, performance information, etc.) on a single platform, with clear navigation and user-friendly brochures. Both fiscal reports and data underpinning charts and tables are available on line.

Aware that budget documents are likely to be dense, complex and hard for ordinary citizens, the Directorate for the Budget also developed sets of fiscal information that are relevant to the needs and interests of a range of audiences, from technicians to average citizens, and are available on the Performance Forum website. For example, some documents explain the budget framework to a younger audience.

Two years ago, the Directorate for the Budget also started publishing Performance Fact-Sheets ("*Données de la performance*") which include, for each mission within the budget, a two-page description of current funding levels and performance results, a comparison with funding and results of the last two years, and a narrative explaining how targets were met, or why they were missed. It also plans to develop a Citizen's Budget in the coming years.

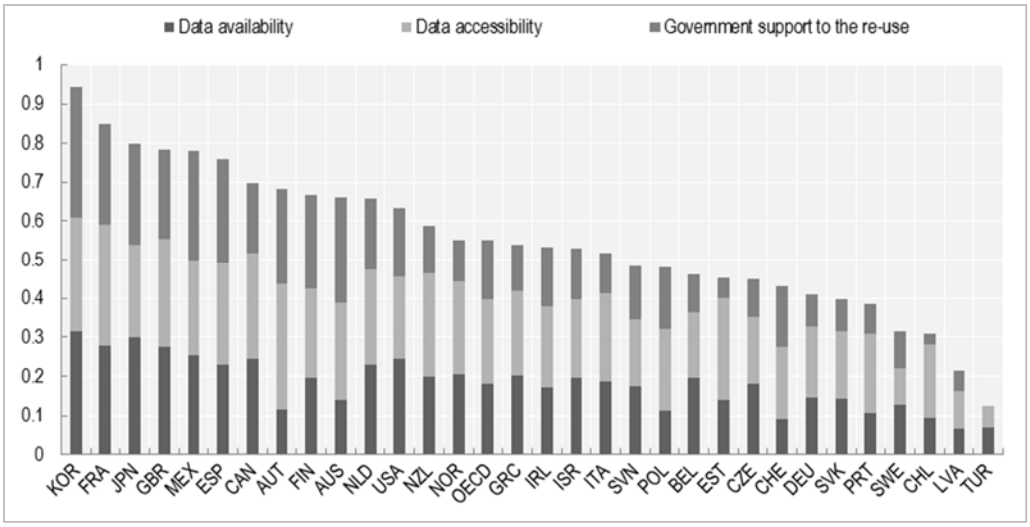
France is also involved in the Open Government Partnership, the international Open Government organisation oriented at the adoption of open and transparent processes in the public administrations. The Government launched an Open Government National Action Plan 2015 - 2017 detailing France's commitment to the promotion of transparent and collaborative public action and also maintain a website called Data.Gouv.fr which hosts datasets produced by Government, corporations, citizens or non-profits.

Highlighting these efforts, France ranks among the top two countries on the OECD Open-Useful-Reusable Government Data Index (Figure 15). Only selected budget data is available on the Government's open database, though and the Ministry of Finance envisions launching a budget-specific open database.

In order to find ways to make open budget data available that serves civil society and is expressive enough for the general public to understand easily, the Ministry of Finance plans to organise a *Hackathon* in 2018, which would allow both technicians and civil society coming forward, assessing data and developing innovative ideas and tools.

Figure 15. OECD countries: Open-Useful-Reusable Government Data Index

Composite index from 0 lowest to 1 highest (OURdata), 2017



Source: OECD (2017b), Survey on Open Government Data; Data for Hungary, Iceland and Luxembourg are not available. Denmark does not have a Central/federal data portal and therefore are not displayed in the Index. Detailed methodology and underlying data available online in the annex online. Information on data for Israel: http://dx.doi.org/10.1787/888932315602

6.5. Summary assessment

Overall, the transparency and openness of State budget and financial reporting is very high in France.

Thorough the whole of the budget cycle, the Ministry of Finance publishes an extensive set of financial information. Appendices to the State Budget Act present an extensive set of fiscal information, such as economic and fiscal forecasts, describe the cost of all new policy measures and provide detailed information on tax expenditures, including number of recipients and cost estimations.

Performance indicators and results attached to each of the programmes composing the State budget, which assess their effectiveness, quality of service or efficiency. Quality of performance information is notable: although the performance framework is currently in a state of flux, France is among the very few OECD countries whose performance data is submitted to an annual independent review by the Court of Accounts.

Accrual financial statements are prepared at year-end, which report all State assets and liabilities. Civil Service and contingent liabilities are disclosed and measured in dedicated notes. Accounting standards are established by an independent advisory body, which systematically considers international accounting frameworks for setting national standards.

In pursuing the LOLF's objective of transparency, the Ministry of Finance regularly consults a broad range of stakeholders, primarily parliamentarians, on possible improvements to existing budget documents. Considerable efforts are also invested into making fiscal information accessible to the general public, with, for example, short Performance Fact-Sheets published each year to discuss key performance indicators, using clear illustrations and user-friendly language.

Although the design of the performance and accrual frameworks has been revised and refined over the last ten years, they still lack political impact, a situation that is not unique to France. Questions are therefore being increasingly raised on how to maximise the added-value of this resource-consuming exercises, in particular their impact on policy formulation and quality of scrutiny.

Among other initiatives, working groups mixing officials with different backgrounds and coming from several ministries have been set up to propose options for future developments of the performance and accrual frameworks (e.g. nature of performance indicators, development of cost accounting).

7. Parliamentary involvement and external oversight in budgeting

7.1. Parliament approval and scrutiny

France has a bicameral legislature comprised of the National Assembly and the Senate. The 577 members of the National Assembly are elected for a five year term by a two-round run-off voting, in which the candidate who obtains an absolute majority in the first round (i.e. more than 50%) or a relative majority in the second round is elected. The 348 Members of the Senate are elected for a six-year term by an electoral college of approximately 150 000 members, comprised of the members of the National Assembly, municipal and regional councillors, and their delegates.[40]

The role of Parliament in the budget process is set out in broad terms in the Constitution and the LOLF and detailed in the Parliament's internal rules and procedures. The Parliament's two houses have both a role in budget approval, but it is the National Assembly that has prerogative in the legislative process, which is structured around three sets of documents, which are either discussed or formally approved (see Table 7):

1. The first set of documents (Stability Programme, Pre-Budget report and Law on the Programming of Public Finances) presented to Parliament provides the macro-economic background for budget discussions and medium-term perspective on public finances, effectively setting the stage for the annual budget discussion;
2. The second set of documents comprises of actual budgets proposals, the State Budget Act and Social Security Financing Law, which are approved by Parliament before the beginning of the fiscal year; and at least one Supplementary Budget Act;
3. The third set of documents reports on budget execution (Annual Budget Outturn and Budget Execution Act), both in terms of financial outturns and performance results, as described in more detail below. The Budget Execution Act must be approved before the next budget is discussed in Parliament.

In addition, Parliament is provided all year-round with monthly budget execution reports and information on reallocations and cancellations of appropriations, as prescribed by the LOLF.

The Stability programme is the first document presented to the Parliament in a budget year. The law prescribes this to be done at least two weeks prior to the submission to the

European Commission. The Parliament is not required by law to approve the Stability Programme but may do so if it wishes. For example, in 2018, the National Assembly approved the Stability Programme, while the Senate did not submit it to such a vote. In any case, the Parliament's debate represents a strong political endorsement of the Government strategy.

Although the Stability Programme is presented to Parliament in April, the legislative approval process begins in earnest in June each year, when the Government presents the Pre-Budget Report ("*Rapport préparatoire au débat d'orientation des finances publiques*", or DOFP). In line with the provisions of the Stability Programme[41], this report announces to the Parliament the main changes to the Government's economic and fiscal policies, the expected path of the State's finances for the next fiscal year and allocates provisional resources envelopes for each mission.

This review is done in light of the conclusions of the Court of Accounts' Report on the Situation and Outlook for Public Finances ("*Rapport sur la Situation et les perspectives des Finances Publiques*"), which is presented alongside the Pre-Budget Report. It analyses fiscal statistics' key aggregates and identifies risks that may cause deviations from medium-term targets.

Lastly, in years when it is prepared, the Law on the Programming of Public Finances is submitted in September to the Parliament. It shows, among other things, the expected path for general Government's finances (deficit and debt) and the three-year State Triennial Budget.

The State Budget Act proposal is submitted to the Parliament by the first Tuesday of October. There are time limits set out in statute regarding debate in the National Assembly (40 days) and Senate (20 days), as well as an overall limit of 70 days from introduction of the proposed law to a final vote. This includes time for scrutiny by legislative committees.

The Constitution provides that if a final vote is not taken within 70 days, the Government may enact budgetary ordinances. At approximately the same time (15 October at the latest), the Social Security Financing Law is presented in Parliament. As for the State Budget Act, there are time limits set out in the Constitution regarding debates, albeit shorter ones (National Assembly: 20 days; Senate: 15 days; overall limit: 50 days).

State Supplementary Budget Acts are typically submitted to the Parliament at least once a year to modify the initial revenue and expenditure figures. The Constitution does not stipulate any specific time for scrutiny of State Supplementary Budget Acts, which has limited in the past, parliamentarians' scrutiny of significant transfers of resources between programmes and new tax provisions.

The Annual Budget Outturn ("*Situation budgétaire et financière de l'Etat*", or SBFE) is presented to Parliament by the Public Accounting Directorate in February of the following year. It shows annual budget outturns and explains variations between the preliminary estimations of the fiscal balance established after the closing of the fiscal year, and the final figures. It is presented by the Minister of Finance to the National Assembly and Senate's Finance Committee.

The main accountability document at year-end is however the Budget Execution Act ("*Loi de règlement*", or LR), presented to the Parliament before 1 June. The law shows final budget outturns by mission and programme against Parliamentary authorisation and the cash basis deficit or surplus. Audited accrual basis financial statements ("*Compte Général*

de l'État", or CGE) are presented in an appendix to the Law. They report on an accrual basis all financial operations undertaken by the central Government during the fiscal year.

Parliament is presented at the same time with the Court of Accounts' Budget Execution Audit Report ("*Rapport sur le Budget de l'État*") and an Audit report on the State financial statements ("*Rapport de certification du compte général de l'État"*). The Budget Execution Audit Report assesses budget execution and performance results, and is published along with 60 Budget execution audit notes ("*Notes d'éxecution budgétaire*"), which provide detailed analyses on each public policy. The notes comment financial and non-financial outturns: auditors are indeed asked to comment on the performance achieved by each ministry over the year.

Table 7. France: Main Budget documents presented to Parliament

(Fiscal year: 1 January-31 December)

	Date	General Gov.	State	Social Security	Presented (P) Approved (A)
Annual Budget Outturn	February		*		P
Stability Programme	April	*			P
Budget Execution Act	May		*		P+A
Budget Execution Audit Report and Audit report on the State financial statements [1]			*		
Pre-Budget Report	June	*			P
Report on the Situation and Outlook for Public Finances [1]	June	*			P
Draft Law on the Programme of Public Finances (LPFP)	September	*			P+A
Draft State Budget Act	October		*		P
Preliminary Social Security Fin. Act	October			*	P
Final State Budget Act and LPFP	December		*		A
Final Social Security Financing Act	December			*	A

Note: [1] Reports prepared by the Court of Account and presented by the First President ("*Premier Président*").
Source: Authors.

The Finance Committees in the National Assembly (73 members) and the Senate (49 members) take the lead in all budget-related matters. Procedures ("*Règlement*") of the National Assembly stipulate that Chairs ("*President*") are from the opposition party, while General Rapporteurs ("*Rapporteur General*") are from the majority party. The Senate has traditionally followed similar practices. The National Assembly and Senate Finance Committees' work is supported by a staff of respectively around 25 and 15 administrators ("*Administrateurs*"), who are generally specialists in administrative law.

Detailed modalities for the scrutiny of the budget proposal in each house differ, with the National Assembly having prerogative in the budget process. They however follow some similar broad stages. In particular, revenue provisions of the budget proposal are to be approved before Parliament starts discussing expenditures.

In both houses, the Finance Committee General Rapporteur has a central role. Their initial task consists of examining the budget proposal to ensure that it complies with all legal requirements. They may also propose amendments on budget proposal provisions (e.g. removal of a new tax proposal). Based on their review, the General Rapporteur formulates

recommendations to the vote of the Finance Committee.[42] After the Finance Committee's discussion and vote, the report summarising its position on the budget proposal and listing its proposed amendments is published.

Parliamentary discussion and approval of the budget proposal is then done in three sequences, the first one on new tax provisions that will take effect during the budget year; the second one on fiscal aggregates (total revenue, total expenses, fiscal balance and debt); and the third one on resource allocation to each mission and programme. The Government may also propose new tax provisions that will take effect after the budget year, which are discussed as part of the third sequence. All legal provisions are accompanied by a detailed presentation and assessment, including their medium-term financial impact.

In the National Assembly, revenue provisions are discussed during a one-week plenary session. Expenditures allocated to missions and programmes are submitted to more extensive scrutiny, comprising reviews by:

- 25 Bilateral Committees ("*Commissions élargies*") mixing sectoral and finance committee's members. Committees can conduct hearings of ministers and senior staff from ministries; and
- A Special Rapporteur ("*Rapporteur Special*") nominated by the Finance Committees and Sectoral Rapporteurs ("*Rapporteur pour Avis*") nominated by the Sectoral Committees of Parliament.[43] Special Rapporteurs are granted by legislation unlimited access to all data and reports on budget-related matters. Special Rapporteurs also have authority to send questionnaires to ministries, which ministries are legally bound to answer within a mandatory timeframe.

Following hearings and review exercises by Rapporteurs, Bilateral Committees vote on appropriations for each mission and other related legal provisions, as well as on amendment proposals. The Parliament then votes expenditures as a whole and other legal provisions in a plenary session, during which amendments, even those that have not been pre-approved by Finance or Bilateral Committees, can still be proposed by parliamentarians.

The National assembly and Senate Social Affairs Committees ("*Commission des affaires sociales*") in the National Assembly and Senate take the lead in the review of the Social Security Financing Law proposal, but they seek advice from their respective Finance Committees. The social security legislation approval is shorter and involves fewer actors. In September, the Social Affairs and Finance Committees traditionally conduct a hearing of the Court of Accounts, which presents the findings of its review of the previous year on implementation and the annual audit of social security accounts, followed by a hearing of Ministers of Finance and Social Affairs. The Social Affairs Committees then nominate six rapporteurs to review specific parts of the proposal, who summarise their conclusions in a report to the plenary. The plenary session, which leads to the approval of the Social Security Financing Law proposal, usually lasts around five days.

Budgetary power of Parliament is "rationalised" under the Constitution. Pursuant to Article 40 of the Constitution and Article 47 of the LOLF, the legislature is indeed prohibited from changing the overall fiscal balance in the Government's proposed budget (by creating new "missions"). Within these boundaries, the Parliament has some freedom to amend proposed revenue and expenditure, by increasing or decreasing taxes' rates or shifting the amounts allocated among programmes within the same mission.[44] Comparable, if not entirely similar, limitations exist for the Social Security Financing Law.

Despite the rationalisation of budgetary powers of Parliament and the vetting system detailed in the Parliament's internal rules and procedures, there are on average around 100

hours of discussion in plenary session, and between 1 500 to 2 200 amendments debated each year in the National Assembly (see Table 8), as individual parliamentarians or opposition parties seek to demonstrate their commitment to policies considered crucial for their constituencies or parties. The bulk of amendments is related to new tax provisions contained in the budget proposal.

Figures are similarly impressive for the Social Security Financing Law, for which 868 amendments were proposed and discussed in 2017. However, very few amendments are politically viable. In fact, changes to revenue and expenditures levels in the Budget Act proposal amount to EUR 2.8bn in 2017, after 94 hours of discussion in plenary session and 2 180 amendments.

Table 8. France: Duration of Debates and Number of Proposed Amendments

	First Section		Second Section		Other	
	Hours	Nº of Amendments	Hours	Nº of Amendments	Hours	Nº of Amendments
2013	39	848	12.30	367	12.30	359
2014	50.30	1.134	17	388	17	473
2015	41	891	14.30	499	14.30	362
2016	40.30	832	19.30	431	19.30	294
2017	32.30	842	23	441	23	897

Note: the first section of the budget proposal includes all new tax provisions taking effect during the budget year; the second section includes expenditures and new tax provisions taking effect after the budget year (Y+2, Y+3, etc.).
Source: National Assembly Finance Committee.

Significant scrutiny is exercised in-year by Finance Committees. In particular, the Government is required to appraise the Presidents of the National Assembly and Senate Finance Committees of proposed reallocations, transfers, etc., as stipulated by the LOLF. In addition, in both houses, Finance Committees are tasked with controlling the budget execution; assessing the compliance of new legislation with fiscal targets and rules; and launching discretionary inquiries on all budget-related matters. These enquiries are undertaken either directly by the Finances Committee or by the Court of Accounts, at the Parliament's request, and their results are presented in Parliamentary reports. As part of the in-year scrutiny process, Finance Committees realise and publish budgetary control reports ("*Rapports de contrôle budgétaire*") and compel testimony from any witness deemed pertinent to their work. For example, in 2016, the Senate Finance Committee published more than 20 such reports and conducted 450 hours of hearings.

In both houses, the Finance Committee General Rapporteur leads year-end scrutiny. Similarly to the process of the budget proposal, they review the year-end legislation proposal to ensure that it complies with all legal requirements and formulates recommendations to the Finance Committee on whether the proposal shall be accepted or rejected.[45] The Finance Committees may also conduct hearings, which they do not do often in practice.[46] After the Finance Committee's discussion and vote, the report summarising its position on the budget proposal and listing its proposed amendments is published.

Special Rapporteurs also analyse results achieved on the missions they are in charge of. Similarities with the budget proposal process however ends here: discussion in plenary session on the Budget Execution Act proposal takes place in a matter of hours in the National Assembly, as well as the hearing of the First President on the Court of Accounts.

Overall, in France, the budget process in Parliament shows imbalances between times spent on budget approval versus fiscal policy and scrutiny of results. Such imbalance can be observed in other Parliamentary systems and many Parliaments across the OECD, faced with similar issues, have therefore looked into rebalancing their budgetary role. This has often been done by allocating tasks of budget approval and scrutiny to two distinct committees (as for example in Scotland) and by strengthening Parliament's analytical and research resources, in technical areas such as fiscal policy or performance analysis, by establishing a Parliamentary Budget Offices, or PBO (as for example in Canada, Austria or Ireland).

Although the number of staff assisting Finance Committees in the National Assembly and Senate is comparable with other OECD countries, both options could be considered in France, as consensus seems to grow that Parliament's budget process has a certain level of inefficiency in its current form.[47] Other options than a PBO could be considered, such a reconfiguration of existing institutions so that they are more directly at the disposal of Parliament or the recruitment of administrators with capacities in targeted areas, such as tax policy, performance analysis or economic modelling, or reconfiguration of an existing institution so that they are more directly at the disposal of Parliament (which cannot be the Court of Accounts given its specific institutional position).[48]

Table 9. Selected OECD countries: Budget and Staffing in Parliamentary Budget Offices

Country	Institution name	Year	Budget *(EUR)*	Staffing *(full-time equivalent)*
Australia	Parliamentary Budget Office (PBO)	2014	43 million	38
Canada	Parliamentary Budget Office (PBO)	2014	2 million	17
Greece	Parliamentary Budget Office (PBO)	2017	0.5 million	16
Italy	Parliamentary Budget Office (PBO)	2014	6 million	33
Korea	National Assembly Budget Office (NABO)	2017	11 million	138
Mexico	Center for Public Finance Studies (CEFP)	2016	2 million	60
US	Congressional Budget Office (CBO)	2016	38 million	235

Source: OECD IFI Database (2017). National currency converted into US dollars as of December 2017.

To increase engagement of Parliament thorough the budget process, the role of Sectoral Committees could also be strengthened, in particular with regards to fiscal policy and performance aspects. This could be done, in particular, by codifying in Parliament's internal rules and procedures a role for Sectoral Committees (or to the 25 Bilateral Committees and Special Rapporteurs) in the review of the Pre-Budget Report and Budget Execution Act.

However, more generally, rebalancing the role of Parliament thorough the budget cycle would imply that more comprehensive information on fiscal policy and budgetary decisions be made available ahead of the budget proposal transmission to Parliament. Parliamentarians have, in particular, recently called for tax provisions and resources allocations disclosed in the Pre-Budget Reports to be more comprehensive and reliable, as

past experience has shown that they can change significantly up to the publication of the budget proposal.

7.2. Audit and external oversight

7.2.1. Court of Accounts

Relationships between Supreme Audit Institutions (SAI) and Parliaments vary widely among OECD countries, reflecting historic, cultural, political or other factors or influences. The SAI may be part of either the legislative branch or the executive branch, or independent of both. The Court of Accounts ("*Cour des comptes*") is a judicial body, independent from both Government and Parliament and also a particularly high profile institution in France. Since a ruling by the Constitutional Court ("*Conseil Constitutionnel*") in 2001, the Court's independence as well as its institutional relationship with the executive and legislative branches has been protected by the Constitution (Article 47-2, dating from 2008). In addition, the position of First President of the Court (who serves a nine-year term) is usually filled by high-profile personalities. Members of the Court of Accounts are recruited amongst high-level public servants and appointed for an indefinite term, in order to protect their independence.

Such a model does not preclude the fact that the work done is, sometimes to a significant extent, directed to Parliament. The relationship between the Court of Accounts and Parliament has in fact become significantly stronger over time, in particular following the adoption of the LOLF and LOLFSS, which formally assigned an "assistance to Parliament" role to the Court of Accounts, with regards to the execution of the State Budget Law and Social Security Financing Law and turned the Court of Accounts into a "budget watchdog" (OECD, 2016).[49]

In this role, the Court of Accounts receives regular information from the Ministry for the Budget, among which public budget documents discussed above and non-public documents (detailed analysis of budget execution by programme). It also has access to central Government's financial IT system, where budget execution data is available both at aggregated and detailed level.

The Court of Accounts prepares three reports through the annual budget cycle, as shown in Table 10, which are presented by the First President in plenary sessions. Regular hearings of Court of Accounts' magistrates are done by Finance Committees in both houses. One notable aspect of the Court of Accounts' work is that it annually conducts a review of ministries' key performance indicators. The Court of Accounts has developed an audit approach, which specifies that auditors should assess 1) the indicators' relevance; 2) their consistency over time; and 3) their usefulness (is the performance indicator used for improving the efficiency or effectiveness of a given public policy?). Auditors are also asked to comment on the performance achieved by each ministry over the year.

The Court of Accounts' flagship publication (and means for conveying recommendations) remains however, the Annual Report of Court of Audit ("*Rapport public annuel*"), which receives significant attention from Government, Parliament and the general media. While this report is not dedicated specifically to the public finances, it includes key recommendations in this area. Due to regular follow-up of past recommendations on public finances and its prominent role in the oversight of public finances, the Court of Accounts plays an important and regular role in identifying areas for improvement in budgetary processes in France.

7.2.2. High Council on Public Finances

The High Council for Public Finances ("*Haut Conseil des Finances publiques*", or HCFP) was created in 2012, as France sought to translate obligations set out in the European Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union into national law.[50]

France initially considered the establishment of an *ad hoc* institution, separate from the Government and the Parliament, as well as from the Court of Accounts whose focus would have therefore remained exclusively on *ex post* monitoring of public finances. Ultimately however, it was decided to set up the HCFP as an independent body strongly linked to the Court of Accounts. The HCFP and Court of Accounts have indeed the same Chairman and HCFP staff work part time for the Court. Placing the HCFP within the Court has arguably allowed it to benefit from the pre-existing independence of its host, and some measures have been put in place to enhance the HCFP's independence, but this situation is unique to France as noted in a recent OECD case study (2016).[51]

The organic legislation makes several provisions in order to guarantee the independence of the HCFP. In particular, the 11 HCFP members are appointed by six different authorities, which include Chairs of the National Assembly and Senate Finance Committees, are traditionally from the opposition party. HCFP members are all "qualified individuals" and conduct hearings of regular officials and experts to support their work.

The overall mandate of the HCFP is to ensure the "consistency of the return trajectory to balanced public finances with France's European commitments". More specifically, the HCFP assesses all financial texts presented by the Government, and delivers opinions on: 1) the Government's annual macroeconomic projections, 2) the consistency between annual central Government's and social security's annual Budgets Acts and targets set in the Public Finances Framework Law, and 3) *ex post* on "significant deviations" between the general Government structural balance and objectives set in the Public Finances Framework Law. These opinions are published all year-round (Table 10).

Deviations between the general Government structural balance and objectives set in the Public Finances Framework Law are considered significant when they are above 0.5% of GDP for one year or 0.25% on average for two successive years. A "significant deviation" generates a so-called corrective mechanism ("*mécanisme de correction*"), which means that the Government must adjust the structural balance in the following State Budget Act and Social Security Financing Act so that it is compliant with the target set in the Law on the Programming of Public Finances. The HCPF then delivers an opinion on the corrective mechanism proposed by the Government. This opinion is considered by the Constitutionals Court, which verifies that the State Budget Act and Social Security Financing Act do not conflict with constitutionally established rules.

Table 10. France: HCFP Public Opinions

Date	Title	Content
September (not every year)	Opinion of the Law on the Programming of Public Finances	Review of the credibility of macroeconomic projections (LT and MT) and potential growth forecasts Review of the consistency of the medium term fiscal objective with the Stability Programme
September	Opinion on the State Budget Act and the Social Security Financing Act	Review of the credibility of macroeconomic projections (ST) Review of the consistency of the medium term fiscal objective for the next year with the medium term fiscal objective in the Law on the Programming of Public Finances
April	Opinion of the Stability Programme	Review of the credibility of macroeconomic projections (ST and MT)
May	Opinion on compliance with the medium-term fiscal objective	Identification of significant gaps between objective and actual for the general Government structural balance
As needed	Opinion of Supplementary Budget Act	Review of the credibility of macroeconomic projections (ST) Review of the consistency of the medium term fiscal objective for the next year with the medium term fiscal objective in the Law on the Programming of Public Finances

SourceS: LT : long term ; MT : medium term ; and ST : short term, HFFP's website (www.hcfp.fr/Missions#Calendrier%20des interventions du HCFP)

To fulfil this mandate, the HCFP is provided targeted information by the Ministry for the Budget. The fiscal council has only been operating since 2013 and both Government and HCFP members consider that there is still a learning curve. Quality and accessibility of information (see Section 3) and time lag for examining macroeconomic forecasts remain to be improved: in its most recent Activity Report, the HCFP underlines that "although the quality of the information transmitted to it by the Government has continuously improved since its creation, the time frames in which the High Council has to make decisions are highly constrained."

7.3. Summary assessment

Overall, in France, the constrained amendment powers of the Parliament mean that the Government has primacy in budgetary matters. However, the long and active political debate taking place between Government and opposition parties as part of the budget approval highlights strong budgetary powers of Parliament. Each year, the Parliament tables a large number of amendments to tax legislation and adjustments to expenditure proposals, within legal bounds. The system of Rapporteurs and Special Rapporteurs shadowing particular line ministries also ensures a strong sectoral knowledge, which creates real scope to exercise influence and accountability on budgetary matters.

Notwithstanding this strength, it is notable that most Parliamentary budgetary debates focus on the State Budget Act proposal, hence taking place late in the budget formulation process. Therefore, although Finance Committees do scrutiny work throughout the year, plenary discussion of the Pre-Budget Report and Budget Execution Act is considered by many as too limited.

Calls for reform from both the Government and Parliament create a strong momentum for Parliamentarians to engage more effectively thorough the course of the budget cycle. Against this background, priority areas of reform to consider would include procedural changes to promote parliamentary engagement, such as a formal role for sectoral committees in the review of the Pre-Budget Report and Budget Execution Act; institutional

support for more effective Parliamentary engagement, such as the establishment of a PBO or a reconfiguration of existing institutions so that they are more directly at the disposal of Parliament; and enhanced information ahead of the transmission of the budget proposal, in particular with regards to the necessary content of the Pre-Budget Report for effective Parliamentary engagement.

France's fiscal council has only been operating since 2013. Although its creation already had visible impacts on the reliability of macro-economic forecasts, it can be said that both the Ministry of Finance and fiscal council are still on a learning curve. For example, quality and accessibility of information and time lag for examining macroeconomic forecasts remain to be improved.

Notes

1 Since 1958, the Constitution went through five major amendments: in 1962 (election of the President of the Republic by direct universal suffrage); in 2000 (reduction of the presidential mandate from seven to five years); in 1992 (including modifications of title XV dedicated to the European Union); in 2003 (reform of local government); and in 2008 (modernisation of the Institutions of the 5th Republic

2 Despite efforts pursued by successive Governments to simplify its multiple layers, local Government in France has at present 12 regional Governments; 96 departments; around 35 000 municipalities and 15 000 groupings of local Governments for delivering particular services, as well as a high number of local public agencies.

3 Government estimate in the 2018 Budget Act.

4 This was necessary in view of the expenditure trends appearing in the first half of 2017, including a recapitalisation of the AREVA Company (the main nuclear energy corporation of France) that was not foreseen in the budget of 2017.

5 Most of these expenditure rules are considered as "quantitative budgetary rules" under EU regulations - that is rules that set "quantitative targets in their area of application, their monitoring and the consequences of non-compliance" (the regulations also specify that if they contain exemptions clauses they must specify "the conditions for their applicability and strict procedures for the compliance with these conditions").

6 The first one realised as early as 1968 ("*Rationalisation des choix budgétaires*").

7 The Public Policy Programme 2022 is structured in three work streams. Firstly, five working groups focus on formulating reform proposals for the public sector in the following areas: simplification of administrative procedures, digital government, and human resource management, territorial organisation of Government and modernisation of financial management. Secondly, the Public Policy Programme Committee 2022 ("*Comité Action Publique 2022*") is in charge of developing general proposals for reforms and savings. This committee consists of economists, qualified French or foreign personalities from civil society, senior officials and local representatives. A Public Policy Programme Youth Committee 2022 ("*Comité Jeune Action Publique 2022*") has also been set up to gather separate proposals from students and young professionals. Thirdly, the Public Policy Forum ("*Forum de l'Action Publique*") administered a survey on public services and gathered contributions from citizens and users on how to improve public service delivery.

[8] When the LOLF was initially discussed, one of the reforms considered was the adoption of accrual budgeting. Specifically, it was envisioned that the budget would be prepared both on cash and accrual bases - that is showing both the cash-basis revenue and expenditure and accrual-basis "claims to be received and granted during the financial year". This was included as a tentative provision in the initial version of the Constitutional Bylaw. When called upon to give its opinion, the Council of the State ("*Conseil d'État*") was however critical of this proposal, which was seen as contrary to the annuality principle set in the Constitution. Following the opinion of the Council of the State, the Parliament rejected the proposal. Commitment authorisations were then considered as an alternative option for adding a medium-term perspective in the budget while keeping formal budget annuality.

[9] The Social Security Financing Act for year Y therefore includes the current year actuals (Y-1), the next year's forecasts (Y) and estimates for the year after (Y+1).

[10] The first Law on the Programming of Public Finances was adopted in 2009 (covering the 2009-2012 period), and the second one in 2010 (covering the 2011-2014 period).

[11] The 2012 Organic Law the creation of the High Council for Public Finances ("*Haut conseil des finances publiques*"), which is discussed in more detail in Chapter 6 of this report.

[12] Although the Constitution also limits this autonomy by granting to Parliament the capacity to decide transfers of revenue between local governments based on a number of criteria.

[13] Part of the use of taxes to fund the social security reflects the ongoing policy to reduce social contributions for employers in order to support job creation.

[14] In 2018, earmarked taxes are expected to rise to EUR 277 billion, of which EUR 201 billion will go to social security, EUR 53 billion to the local governments and EUR 24 billion to State operators.

[15] The study highlights "five different taxes on pharmaceutical companies, taxes on company cars and a share of a global tax for all companies above a certain level of net sales, (…) taxes on consumption or behaviour, including a share of the VAT, a tax on personal health insurance and taxes on tobacco and alcohol" and a so-called universal social tax ("c*ontribution sociale généralisée"*, or CSG)".

[16] More limited exercises can take place in between, for instance in connection with supplementary budget acts.

[17] The latter are not only the new measures included in the new budget or financing law, but also the new measures included in the State Budget Act or Law on the Programming of Public Finances of previous year that come into force in the upcoming year.

[18] Per EU regulations, stability programmes contain information on the development of the general Government structural balance over the medium-term; the development of the general Government expenditures, revenues, balance and public debt, subdivided by sub-sector of the national accounts; growth of general Government expenditures, net of new tax measures; a computation of the revenue impact of new tax measures; the sensitivity of the budgetary variables for the most important hypotheses of the macroeconomic forecasts; a justification of possible deviations from the development path of the budgetary variables from the path recommended by the EU Council.

[19] In France, the Directorate for the Treasury, within the Ministry of Finance, is leading work on economic policy and relationships with the European Commission. It works in close co-operation with the Directorate for the Budget, which leads work on fiscal policy and annual budget formulation and execution.

[20] The Court of Account has indicated in its report of September 2014 that this problem is particularly acute in relation to social security.

[21] However as the Law on the Programming of Public Finances is prepared later in the year (at the same time as the annual budget), it often includes macroeconomic developments and new policy measures that were not known at the time of the Stability Programme formulation.

[22] The structural effort is the difference between the potential growth of GDP and the growth of expenditures minus the proceeds from discretionary revenue measures (the latter possibly negative in case of tax or non-tax relief).The current programming law interprets this requirement as a structural deficit of less than 0.4 % of GDP.

[23] The Court of Accounts, in particular, has been critical in recent year about fiscal forecasts for the State and for social insurance revenue.

[24] In France, civil servants are mainly recruited at the beginning of their careers, through highly competitive examinations and are granted the right to a career in government for the whole of their work-life.

[25] France's Stability Programme for 2017 specifies that "Central government guarantees cover a wide range of actions to sustain or preserve economic activity or to provide financing for certain economic agents when market financing is inadequate. These guarantees are given under clear-cut agreements and they include in particular: central government debt guarantees, guarantees related to general interest functions (insurance mechanisms operated through the central reinsurance fund, export loan guarantees through COFACE, guarantees to protect savings, etc.), liability guarantees (e.g. for France's share of ESM callable capital) and central government financial commitments for co-financing projects and providing development assistance. Generally speaking, the risk of such guarantees being invoked is small. Furthermore, no new central government guarantees can be given other than in a Budget Act, as stipulated in the LOLF."

[26] The inclusion of natural catastrophe insurance cover in France is mandatory in all comprehensive home insurance policies. Created in 1982, the Insurance Central Cash Office ("*Caisse Centrale de Réassurance*", or CCR) is a public-private partnership providing government-guaranteed reinsurance. As part of the French Cat. Nat. scheme, the CCR was founded on the principle of national solidarity, leading to catastrophe insurance available to all at rates set by decree and uniformly priced regardless of risk.

[27] The very significant size of the SOE sector in France would justify close monitoring of this risk. A recent OECD report (2014) notes that "the absolute size of national SOE sectors is notoriously difficult to compare. For example, corporate valuation often fails to offer a sufficient point of comparison due to large national differences in definitions and corporate accounting practices. Arguably, a more useful measure of SOE sector size is number of employees. (…) By this measure, the largest SOE sectors in the OECD area are found in Norway (10% of national employment), followed by France and Slovenia (6%). If minority-owned listed entities are included in the comparison, the employment share reaches over 10% in Norway, France and Finland. Measured by total number of employees France has by far the largest SOE sector in the sample area, employing nearly 1.6 million people."

[28] he Commissariat-General for Strategy and Foresight's missions are to: 1) provide an independent evaluation of public policies; 2) anticipate future changes in French society regarding economy, society, sustainable development or technology and analyse the issues they raise in the medium term in order to prepare the conditions for political decision; 3) foster a dialogue between the social partners, civil society, business, the community of experts and academia; 4) propose policies and reforms and provide orientation to the government, highlighting possible trade-offs, and foreign experiences.

[29] Different estimation methods are used in order to construe them. *Deterministic* methods are used for expenditures that are determined by socio-economic variables such as demography and inflation. *Historical* methods are used for expenditures of which the determinants are not well-known, such as the investments. *Normative* methods are used for controllable expenditures, in particular expenditures that are subject to limitative authorisations.

[30] Conferences deal with baselines ("the technical conferences"), new measures (the "budgetary and assurance conferences") and refinement of the distribution of expenditures over the line items ("partition conferences").

[31] As such, AEs are consumed at the commitment stage of the expenditure, which is in most cases the legal act of signing a contract with a third party.

[32] The programming law of 2014 stipulated that for each year of the programming period and for all expenditures subject to limitative authorisation, at least 0.5 % of the payment authorisations for personnel expenditures and at least 6 % of the payment and commitment authorisations for all other expenditures had to be set in reserve. In 2016, the freezing rate was set in the annual budget law at 8 % of the payment and commitment authorisations for other expenditures than personnel (amounting to EUR 9.6 billion). In the course of the year the freezing rate was further increased to around 13% (reaching EUR 14.0 billion).

[33] For example, of the EUR 14,0 billion that were frozen in 2016 (excl. personnel expenditures), EUR 8,2 billion were made available in the course of the execution year and EUR 2.8 billion remained frozen to the end of the execution year and finally cancelled (the remainder being reallocated).

[34] Rolled out in 2011, Chorus is based on an SAP solution and was designed to make a unique and integrated information system that conforms to all requirements of the LOLF. It is available to all ministries (at both central and local levels) and manages expenditures, non-tax receipts and budgetary and accrual accounting as well as internal controls, all in one workflow. Through, the Directorate of the Budget can at any point in time have access to commitments and payments done on each mission, programme and action within the State budget.

[35] France's Green OAT funds central government budget expenditure and expenditure under the "Invest for the Future" programme to fight climate change, adapt to climate change, protect biodiversity and fight pollution. The proceeds are managed in compliance with the general budget rule and finance an equivalent amount of Eligible Green Expenditure. In practice, the proceeds of the Green OAT are managed like those of a conventional OAT, but the allocations to Eligible Green Expenditure are tracked and reported.

[36] The new Government recently announced its intention that all tax provisions be enacted in the State Budget Act. In practice, in the past, most changes to tax and duties have been contained in the State Budget Act, with however some exceptions.

[37] For example the Australian Department of Finance (Finance) summarises the hierarchy of the different level at which performance information might be useful in informing government decisions about how to allocate public resources. The four broad categories include information for accountability to the parliament and public, information for strategic decision-making to ministers, the Cabinet and governing boards, information for tactical or entity-based decision-making, and information for management/operational decision-making.

[38] A similar, but shorter, document ("*Situation mensuelle du budget*", or SMB) is also prepared by the Budget Directorate.

[39] www.performance-publique.budget.gouv.fr/

[40] France is among the countries that have the highest number of Parliamentary seats per citizen. This has recently raised concerns, generating proposals from both the executive and legislative branch of Government to significantly decrease their number.

[41] The Stability Programme, prepared as part of the European Semester, is presented in April in Parliament, but not submitted to its approval. The Preparatory State Budget Report is supposed to be consistent with Stability Programme's objectives, subject to any significant economic or fiscal event impacting forecasts.

[42] In the National Assembly, he also reviews amendment proposals from parliamentarians.

[43] There were 70 such sectoral rapporteurs nominated in 2017.

[44] Private Members' Bills are also not admissible where their enactment would result in either reducing revenues or in new or increased expenditures.

[45] In the National Assembly, he also reviews amendment proposals from parliamentarians.

[46] In 2016, however, the Senate Finance Committees conducted hearing of the Minister of Economy and the Court of Accounts and also heard a number of programme managers.

[47] Recently, both the President of the French Republic and Chair of the National Assembly called for reforms that would allow the Parliament to spend less time debating amendments with little viability or financial impact and more time scrutinising results achieved, both financial and in terms of performance.

[48] For example, the Austrian Parliamentary Budget Office was set up as part of a larger budgetary reform process that also introduced performance budgeting and a requirement that each ministry set five key goals that must be approved by the National Council. One of the core elements of the PBO's mandate is to consult with the Budget Committee on performance budgeting where there is new scope for the legislature to exercise influence and demand accountability. To this aim, the PBO helps address some of the challenges typically identified with parliamentary review of performance information. For example, the OECD Review of Budget Oversight in Ireland (Downes and Nicol, 2016) noted among other things "poor presentation of performance information" and "lack of dedicated resources to support scrutiny of performance" in the parliament. Specifically, in relation to performance, the Austrian PBO: 1) creates maps giving an overview on performance information (objectives, measures and indicators) to improve transparency; 2) provides general information on key issues and questions in respect of performance budgeting (e.g. understanding outputs versus outcomes); and 3) analyses the outcome orientation in the performance information (e.g. stronger harmonisation of targets between different line ministries) (Austrian PBO, 2016).

[49] In particular, the LOLF stipulates that the National assembly and Senate Finance Committees can request "studies" to be conducted by the Court of Accounts, whose findings and recommendations are formally presented to the Finance Committee, in the presence of all concerned stakeholders. Finance Committees then prepare a report summarising their opinion the Court of Accounts' findings and recommendations.

[50] Against a background of sustained public deficits, discussions on the creation of an independent fiscal institution started in early 2010. The debate was led by a group of experts and parliamentarians chaired by the economist Michel Camdessus, which discussed various ways to improve fiscal governance and anchor a fiscal rule in the constitution. Many reservations were expressed at the time, notably by parliamentarians. There were, for example, concerns about how an independent fiscal institution would fit into the current institutional framework ("would its functions overlap with those of the Court of Audit? Would it undermine or supplant the role of the Parliament in budget oversight?") (OECD, 2016)

[51] While Finland initially placed its IFI functions in a "Fiscal Policy Evaluation" unit in its National Audit Office, a second independent fiscal institution, the Economic Policy Council was established in January 2014.

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Citizen participation and public trust in local government: The Republic of Korea case

By

Soonhee Kim, Junesoo Lee and Jooho Lee

Over the past decades, leaders and citizens in many countries have lamented the lack of transparency in government and declining citizens' trust in government. South Korea is not an exception. In order to restore trust in government, the Korean government has made considerable efforts to adopt and promote various citizen participation programmes at all levels of government in an effort to ensure accountability, improve transparency and trust in government. This article first discusses the importance of citizen participation as a means of improving transparency and trust in government. It then introduces offline and online citizen participation programmes run by central agencies and local governments and highlight how those citizen participation programmes have evolved. As one specific form of citizen participation practice, this article focuses on the practice of Participatory Budgeting (PB) as an effort to enhance transparency and citizens' trust in government by opening its processes and disclosing budgeting information to the public. Most especially, this article reveals the results of a PB survey of local governments in Korea and discusses why and how PB has been adopted, implemented, and designed to improve budget-related governance structure, policy-making processes, and outputs such as efficiency, accountability, transparency, and trust in government. Lastly, this article discusses policy implications for enhancing public trust in government through PB.

JEL Codes: H40, H50, H70

Key Words: Citizen Participation, Participatory Budgeting, Transparency, Trust, South Korea

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This article was developed as part of an OECD-KDI collaborative work on institutional trust in Korea. The OECD team, including Edwin Lau, Stéphane Jacobzone, Paloma Baena Olabe, Santiago González, and Zsuzsanna Lonti, provided useful feedback on an earlier version of the article presented at the workshops held in Seoul and Paris. Special thanks Paloma Baena Olabe for her thoughtful review comments on the earlier draft. The authors also wish to thank Joon-Kyung Kim, former President of KDI, and several colleagues at KDI, for their precious feedback on participatory budgeting in Korea.

Introduction

Over the past decades, leaders and citizens in many countries have lamented the lack of transparency in government. Moreover, trust in government has also declined in many countries. South Korea (hereafter Korea) is not an exception. Data from several international and national surveys between 1981 and 2010 demonstrate a decrease in the level of trust in government in Korea (Korea Development Institute (KDI), 2006; OECD, 2015).

In order to enhance transparency in government, leaders in those countries have made considerable efforts such as opening more government data and information to the public through diverse channels (e.g. government websites) and engaging more and diverse citizens in the governmental decision-making processes. Leaders, policy makers, and practitioners in government have also attempted to restore trust in government by boosting economic growth, improving quality of public services, citizen satisfaction, performance of public policies and programmes as well as transparency (Hamm, Lee, Trinkner, Wingrove, Leben, and Breuer, 2016)

Citizen participation has been considered as a means of creating such democratic values as accountability and instrumental values such as performance (Moynihan, 2003; Nabatchi, 2012). Recently, governance scholars have paid more attention to citizen participation with emphasis on its role in achieving transparency and restoring trust in government (Transparency International and United Nations Human Settlements Program, 2004; McLaverty, 2011; Kim and Lee, 2012).

Participatory budgeting (PB hereafter) is one example of active citizen participation and has been widely adopted by many countries. In Korea, PB systems have been established in every local government since it was mandated by the 2011 Local Finance Act. As the PB systems have been implemented in all local governments, it provides a great opportunity to evaluate public managers' perspectives concerning the following issues: the PB implementation process, governance mechanism, management capacity, and public managers' view of the impacts of PB on citizens' perceptions of local government transparency as well as citizens' trust in local government.

The accumulated experiences of citizen participation programmes in local government in Korea provide an opportunity to explore the impacts of citizen participation experiences on perceived transparency and public trust in local government. The findings in this research could provide important practical lessons for utilising citizen participation programmes as a mechanism for enhancing public trust in government.

Citizen participation, transparency, and public trust in government

In practice, the Korean government has made considerable efforts to adopt and promote various citizen participation programmes at all levels of government in an effort to ensure accountability, improve transparency and trust in government. As summarised in Box 1, national and local governments in Korea have offered various online and offline participation programmes by different stages of policy making, agenda setting, formation, implementation, and evaluation (Kim, Kim, and Lee, 2014).

Box 1. Evolution of Citizen Participation Practices in South Korea

As the political system in Korea has become more democratised since 1987, local governments have expanded autonomy and democratic structures. Especially, since the Korean Self-Governance Act in 1988, elections for local legislative council seats began in 1991; and elections for city mayors and provincial governors began in 1995 (Kong, Kim, and Yang, 2013). The Korean government's commitment to prevent corruption and ensure transparency is demonstrated by the establishment of the Korea Independent Commission Against Corruption (KICAC) in 2002, a central-level anti-corruption agency based on the Anti-Corruption Act of 2002 and the 2006 Act on the Local Ombudsman Regime and local petitions against the abuse of local finance (Kong, Kim, and Yang, 2013). Since 2005, under the Roh Moo-hyun Administration diverse channels of interaction and citizen engagement programmes in local communities to increase effective communication with citizens were created. The Roh Administration was dubbed "Participatory Governance" administration due to its commitment to enhancing public trust in political institutions through promoting the value of citizen participation in public affairs.

Public policy and administration literature has characterised citizen participation as a part of policy decision-making processes, which includes policy agenda setting, policy formation, policy implementation, and policy evaluation (Arnstein, 1969; King, Feltey, and Susel, 1998). The Korean government has also put more emphasis on citizen participation in the process of policy agenda setting, analysis, formulation, implementation, and evaluation at the national and local levels. Some examples of citizen participation programmes by policy-making processes at central government (Table A) and local government (Table B) are provided below.

Table A. Examples of Citizen Participation Programmes in the Korean Central Government

Participation Type	Information Provision		Consultation	Active Participation
Policy making process	Gov't to Citizens	Citizens to Gov't		
Agenda setting	Public hearing	E-People	Online forum	E-People
Formation	Mailing service	Newsgroup	Seminar	Referendum
Implementation	Brochure	Citizen audit	Policy advisory committee	Volunteer
Evaluation	White	Satisfaction survey	Policy monitoring systems	Opinion poll

Source: Adapted from Kim, Lee, and Han (2004), p.872.

Table B. Examples of Citizen Participation Programmes in Korean Local Governments

Participation Type / Policy making process	Information Provision	Consultation	Active Participation
Agenda setting	Public hearing	Oasis	Request for enactment, revision, or abolition of local ordinance
Implementation	Brochure	Participatory budgeting	Citizen inspection
Evaluation	Satisfaction survey	Ombudsman	Ombudsman

Source: Adapted from Kim, Kim and Lee (2014)

Online citizen participation programmes in particular have been expanded not only to local governments but also to central government agencies. As a result, the Korean government is recognized globally as one of the leading countries in the areas of online citizen participation (United Nations 2016). For instance, one of online citizen participation programmes in the City of Seoul (Cheon-Man-Sang-Sang Oasis), received the Public Service Innovation Awards from the United Nations in 2009. The Central government in Korea has also offered innovative online participation programmes. Box 2 shows an example of online citizen participation, called "E-people," under the Anticorruption and Civil Rights Commission (ACRC).

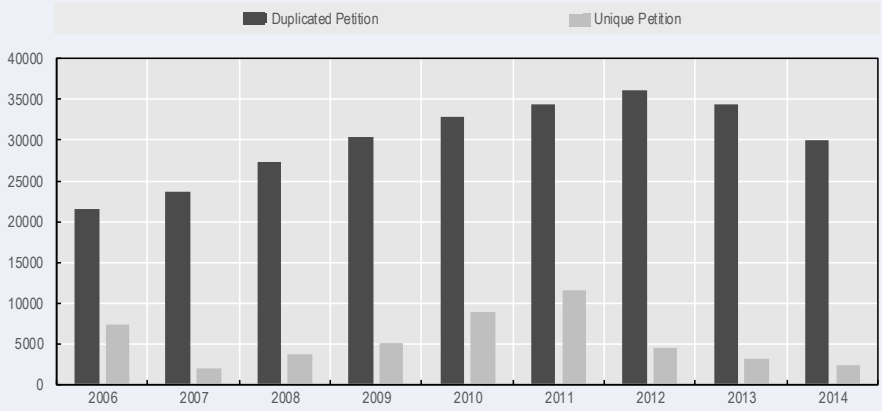
Box 2. Online citizen participation in central government in Korea: E-people

In 2005, the Anticorruption and Civil Rights Commission (ACRC) began to provide online civil petition services, called e-People (https://www.epeople.go.kr). E-People enables citizens to file petitions to complain about government's actions, request the Korean government to take actions and solve problems, and suggest policy ideas online. E-People was recognised as an innovative IT-enabled service by international communities such as United Nation's Public Service Awards in 2011.

Before civil petition programmes were integrated through e-People, they were horizontally and vertically dispersed across government organisations and separately run by different central agencies, local governments, and government-owned public enterprises. From a citizen standpoint, a fragmented structure of petition services created barriers for citizens to locate the right agency to file their petition applications. As a result, citizens often file their petitions to irrelevant agencies or the same petition to multiple government agencies concurrently. From the government's perspective, government agencies often receive irrelevant or duplicate petitions from citizens, which limits their ability to efficiently deal with the petitions, make timely decisions, and thus, to meet citizens' participation needs.

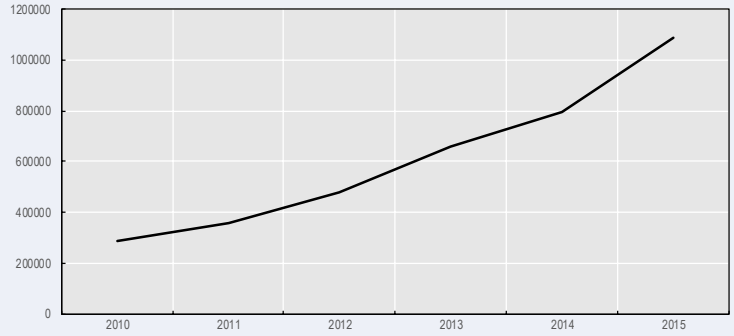
e-People can be characterised to provide seamless online petition services by integrating fragmented petition programmes run by different government agencies. But, the integrated online petition services via e-People did not happen overnight. At the initial stage of e-People development, only seven central agencies joined ACRC's e-People in August, 2005. Since then, ACRC has gradually integrated petition programmes of most government agencies. As of 2015, e-People integrates petition programmes from all 47 central agencies, 274 agencies abroad (e.g., embassy offices), 244 local governments, 846 state-owned public institutions, judiciary and legislative offices, and 195 local school district offices (ACRC, 2016). The figure below shows the result of ACRC's integration efforts (ACRC, 2016). For instance, in 2006, E-people received over 20 000 petitions, identified more than half of them were duplicated, merged them into nearly 7 200 unique petitions and transfer them to relevant government agencies.

Number of Duplicated and Unique Petition Requests between 2006 and 2014

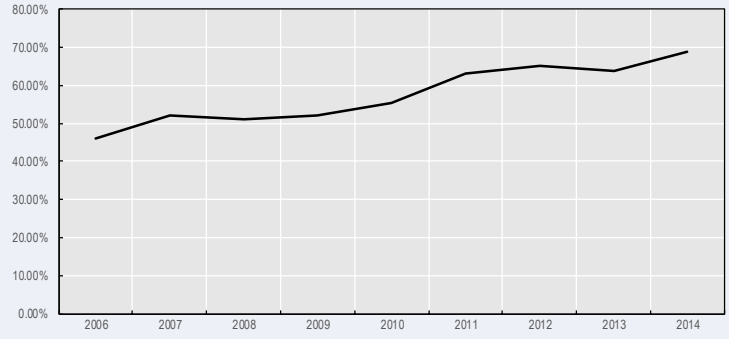


Another key feature of e-People is to offer multilingual services to foreigners living in Korea. Since 2008, 12 foreign language services have been available (e.g., English, Chinese, Japanese, etc). Since then, e-People received 627 petitions from foreigners. Most of petitions concerned about legal issues such as visa issuances and extensions of sojourn. With regard to measures of e-People's success, Figure (a) shows that the number of cases filed via e-People has considerably increased between 2010 and 2015 and Figure (b) shows the increase of e-People participants' satisfaction between 2006 and 2014 (ACRC 2016).

(a) Number of Cases



(b) e-People User Satisfaction



Source: ACRC (2016)

Citizen participation in democratic societies, to some extent, not only has influenced government decisions but also affected developing citizenship through better understanding of public affairs (Roberts, 2004; Pateman, 1970). Recent studies reported the positive effects of citizen participation on efficiency/effectiveness of public management and service provision, which often improves transparency and trust in government (Vigoda-Gadot, 2007; Wang and Wan Wart, 2007; Kim and Lee, 2012). For example, Kim and Lee (2012) highlight the positive role of effective online citizen participation in enhancing transparency and trust in government.

The relationship between citizen participation and transparency in government could also be explained as follows: In a democratic society, citizen participation has served as a means of informing citizens of what government does, educating citizens themselves, and developing their citizenship (Roberts, 2004; Pateman, 1970). When citizen participants are more informed, educated, developed, and engaged in informed discussion related to government policies and programmes, it is likely that citizen participants gain more knowledge about how governments allocate resources and set up priorities, and what challenges face governments while making policy decisions. That being said, citizen participants with better knowledge are likely to be able to serve as competent external observers. The presence of knowledgeable citizen participants is likely to facilitate government to make greater efforts to enhance transparency in government (Thomas, 1995; Cooper, Bryer, and Meek, 2006; Fung, 2006).

Enhanced transparency is one of the primary purposes of PB, which is a specific form of citizen participation (Rossmann and Shanahan, 2012; Wampler, 2012). PB is designed to engage the public in the budgeting processes and disclose budgeting information to the public. Specifically, Ebdon and Franklin (2006) suggest that citizens' cynicism could be reduced and transparency could be enhanced even when citizen participation is least supportive through the participatory mechanisms such as opening government budget records, engaging citizens in public meetings, and informing citizens about the proposed budget.

Despite the potential roles of PB in nurturing government transparency (Ebdon and Franklin, 2006; Rossmann and Shanahan, 2012; Wampler, 2012), scholars have discussed the relationship between PB and government transparency in a prescriptive manner and offered anecdotal evidence. In other words, few empirical studies have examined how PB leads to transparency in government. Thus, we attempt to bridge this research gap by empirically examining the role of PB in enhancing government transparency.

Scholars in different disciplines have widely discussed the notion of trust in government (Hamm, Lee, Trinkner, Wingrove, Leben, and Breuer, 2016). In this research, our perspective is to view trust in government as the confidence and faith that government is performing in accordance with normative expectations held by the public (Vigoda-Gadot, 2007; Wang and Wan Wart, 2007). The expectations are that the intentions and actions of government are ethical, fair, and competent. These normative expectations are based on the belief and evaluation that government is "doing the right things" (Wang and Wan Wart, 2007) and "operates in the best interests of society and its constituents" (Kim, 2010; Kim and Lee, 2012).

How do we explain the relationship between citizen participation and trust in government? Trust in government has been shaped by various factors. Scholars have long studied where trust in government comes from and reported five broad sources such as government performance, institutional design, public officials, environmental factors, and individual factors (Hamm, Lee, Trinkner, Wingrove, Leben, and Breuer, 2016). Among those sources,

government performance has played a critical role in affecting citizens' trust in government (OECD 2015). Government performance is broadly considered as government output as objectively and subjectively assessed the citizens or government officials based on their expectations, beliefs, and faith.

As briefly discussed earlier, citizen participation has long been discussed as a democratic mechanism for restoring trust in government (Box, 1998; Roberts, 2004). Accordingly, the relationship between citizen participation and trust in government has been examined by scholars in public administration (Mizrahi, Vigoda-Gadot, and Cohen, 2010; Mizrahi, Vigoda-Gadot, and Van Ryzin, 2010; Kim and Lee, 2012). They reported, however, mixed findings. For example, Kim and Lee (2012) found that citizens' positive online participation experience significantly improves their trust in the City of Seoul. Other studies, however, reported the weak relationship between citizens' and employees' participation and their trust in Israeli central government agencies (Mizrahi, Vigoda-Gadot, and Cohen, 2010; Mizrahi, Vigoda-Gadot, and Cohen, 2009).

With respect to the role of PB in trust in government, scholars and practitioners (OECD, 2009; Wang and Wan Wart, 2007; Ystano, Royo, and Acertet, 2010; Moynihan, 2007) have asserted that PB can enhance citizens' trust in government. PytlikZillig, Tomkins, Herian, Hamm, and Abdel-Monem (2012) further reported empirical evidence that citizen participants in PB processes positively assessed the improved trust in the local government. In Korea, local governments have expected that the adoption of PB will positively affect citizens' trust in government (e.g. Choi, 2009). However, the empirical evidence in the context of PB implementation in Korea is rare.

Participatory budgeting and public trust in local government

Porto Alegre, Brazil was the first to adopt PB in 1989. Since then, PB has been diffused to other countries, more noticeably in South America and Europe. As witnessed in the global phenomenon of PB system diffusions (Sintomer, Herzberg, and RöCke, 2008; Wampler and Hartz-karp, 2012), PB has been widely advocated not only by theorists but also by practitioners of public administration (Guo and Neshkova, 2013).

There are several approaches to the definitions and implementations of Participatory Budgeting.

- PB can be defined as "the participation of non-elected citizens in the conception and/or allocation of public finances" (Sintomer, Traub-Merz, & Zhang, 2013). It is characterised in the five dimensions: 1) discussions on financial and/or budgetary dimension that deals with scarce resources; 2) at municipal level involved or a district with an elected body; 3) through repeated processes; 4) by public deliberation within the framework of meetings/forums; 5) for the sake of accountability with regard to output.
- As an effort to overcome the weakness of the closed budget decision-making in the executive branch, PB is expected to guarantee citizen's right to know, transparency, and accountability, and thereby help realise democratic governance in budgeting process through proactive communication between citizens and public managers (Kwack, 2005; Lim, 2011; Jung, 2014; Yoon, Seong and Lim., 2014).
- There are variations with which PB programmes have been utilised in the budget process (Ebdon, 2000; Sintomer et al., 2013; Guo and Neshkova, 2013). For instance, PB can be used at 1) information sharing; 2) budget deliberations and

discussions; 3) budget decisions; 4) programme assessment. According to an International City/County Management Association survey, "information sharing" stage seems to be where citizen participation is most often used in budget process (Ebdon, 2000).

In line with the global diffusion of PB since its inception in the Porto Alegre case in Brazil, PB in Korea was introduced by some non-governmental organisations (NGOs) and diffused through the local governments (Choi, 2009, OECD, 2009; Sintomer et al., 2013; You and Lee, 2013). In detail, there have been some NGOs' networks such as the Budget Watch Network and Citizens' Coalition for Economic Justice (CCEJ) that promoted civil society's monitoring of budget systems as well as budget transparency and accountability through civic participation. (Choi, 2009; Sintomer et al., 2013; You and Lee, 2013).

In sum, PB has been introduced and utilised in Korea in the context of: 1) citizen-led democratisation; 2) NGOs' efforts dealing with problems of scarce resources, and 3) decentralisation and accountability of public institutions (Kim, Lee, and Lee 2016; Sintomer et al, 2013).

Participatory budgeting in Korea: Research scope*

This article presents the detailed process and impacts of the PB system in Korea by using primary data collected through a nationwide survey of the Korean local government in 2015 as well as secondary data such as PB-related ordinances of local governments.

All the 241 local governments in Korea as well as the target population, which consists of the 15 metropolitan governments and the 226 primary local governments were the sampling frame of the primary data collected through the survey. Face-to-face interviews with PB managers was then conducted from August to September in 2015.

The grand response rate was 95%. Out of the 241 local governments, 229 local governments responded and 12 out of 15 metropolitan governments (or 80%) responded to our survey. Primary local governments had the highest response rate of 96% (217 out of 226).

Government officials in charge of PB systems in each local government were interviewed by the Economic Information and Education Center at KDI. The survey questionnaire consisted of five sections: 1) adoption of PB; 2) objectives and operation of PB; 3) finance and expenditure of PB; 4) support for PB operation; 5) impacts of PB. Questions in each section, were both structured and open-ended questions.

The survey showed that 228 local governments (out of the 229 respondents) enacted their own PB ordinances. This means that almost all local governments in Korea are implementing (or at least officially adopting) PB systems as of 2016.

PB adoption in local government in Korea

Drivers behind budgetary transparency through civic participation in Korea are categorised into three political and economic factors (You and Lee, 2013): 1) the transition to

* The major features of PB system in Korea presented in the article are mainly based on the data of the authors' study funded by Korea Development Institute (See Kim, Lee, & Lee, 2016, for the details of PB system in Korea.)

democratic regime in 1987; 2) the reintroduction of full local government autonomy in 1995; 3) the financial crisis and change of government parties in 1997.

Origins of the adoption and diffusion of PB in Korea is traced back to the decentralisation and budget reforms under the Kim Dae-jung Administration (1998-2002) in an effort to overcome the financial crisis of 1998 (Sintomer et al., 2013; You and Lee, 2013). Following the reform of the Kim Dae-jung Administration, the Roh Moo-hyun Administration (2003-2008) continued reforming budget transparency through civic participation, for instance, the National Fiscal Management Plan; the National Fiscal Act which mandated government ministries to form its own self-evaluation committee comprising not only government officials but also external experts such as NGO staff (You and Lee 2013).

Box 3 summarises the first case PB was adopted a local government. Having been enlightened by such "early adopters" of PB, the central government of Korea began to pay more attention to the PB system, and as a result the Local Finance Act was amended in 2005, which guaranteed citizens' participation in the local government budgeting process (Kwack, 2007). However, the Local Finance Act, at this stage, only advised local governments to get citizens involved in the budgeting process and to develop their own frameworks for the participatory budgeting system (Yoon, Seong, and Lim, 2014).

Box 3. The first adopter's story: Buk-gu of Gwangju Metropolitan City

Costs

The new PB system's annual operating cost was estimated to be approximately EUR 17 700. This included the fees paid to consultants and participants as well as the costs of organising meetings, travel costs, etc. One full-time staff member worked with other colleagues during the peak season.

Risks

A number of risks were anticipated and encountered in the implementation stage of PB:

- A number of civil servants argued that it would result in poor budget formation because of the participants' insufficient experience and skills.
- Some citizens argued that it would provoke increased conflicts among citizens in the process of allocating limited resources and would be used as a means of justifying the mayor's decisions without producing substantial outcomes.
- The members of District Council (DC) argued that it would make the budget process time consuming and inefficient as well as go beyond the authority of the DC.
- Finally, the project did increase the administrative burden on Northern District – requiring one full-time staff and fragmenting the budget stages from 5 to 14.

Benefits

PB benefited the District in several ways:

- The quality as well as the quantity of budget information to citizens improved to become more accessible and user-friendly.

- The number of preliminary or/and regular consultations between the District and the DC increased to reconcile the conflicts and narrow the differences before the District proposed the budget to the DC.
- Citizens felt that government worked better for them resulting in greater trust in government and public officials.

Inclusion

The PB process engaged over 1 000 stakeholders in interviews, workshops, and presentations regarding issues that impacted the region and its economic development. It engaged or reached the private, public, and non-governmental organizations (NGOs) as well as academics, students, and others. However, the Participatory Budgeting Council (PBC), which consisted of no more than 100 citizens who were invited and recommended, played the central role in the decision-making process. In addition, a website project was launched, which contained all the necessary information and functions as a two-way communications channel.

Evaluation

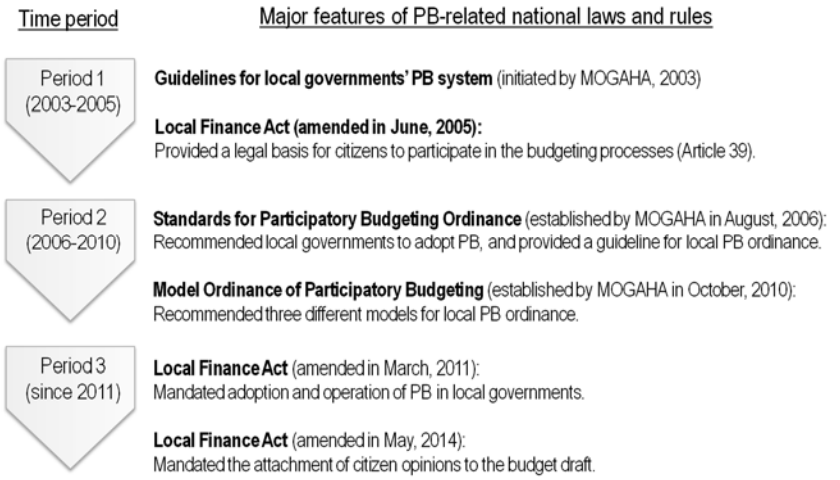
The project was evaluated by the District through a survey conducted on the participants and civil servants three years after the initial implementation in 2003. The results of the evaluation turned out to be positive in all areas and were open to the public through its website and booklets. Thereafter Buk-gu remains a pioneer for participatory governance through a PB system in Korea.

Source: Adapted from Choi (2009)

In 2003, the Ministry of Government Administration and Home Affairs (MOGAHA) initiated guidelines for local governments' PB systems. A few years later, MOGAHA provided a more advanced guideline named "Standards for Participatory Budgeting Ordinance" to local governments in 2006. Subsequently MOGAHA again established and offered three types of Model Ordinance of Participatory Budgeting to local governments in 2010 so that local governments can use them as a reference when they enact their own ordinances. This type of encouragement by the central government resulted in the wider adoption of PB systems by local governments in Korea.

One of the tipping points in the diffusion of PB system was in March 2011 when an amendment of the Local Finance Act was passed by the National Assembly of the Republic of Korea (Figure 1). Since March 2011 when the Local Finance Act was revised to mandate all local governments to adopt PB, 126 local governments have newly joined and made their own PB ordinances.

Figure 1. Policy Changes and PB Adoption in Korean Local Government (2003 – 2014)



Source: Adapted from Kim et al. (2014); Lee (2011); Yoon, Seong et al. (2014)

PB operation

Although all local governments in Korea have been mandated to adopt PB since 2011, there are both similarities and differences in their PB operations among local governments in terms of process, governance, and capacity.

As a PB system operates according to the annual budgeting cycle, the operating process as a result, is repeatedly conducted on an annual basis. Despite small variations of detailed procedures of each local government, the annual PB process can be generalised as seen in Figure 2.

1. Stage 1: Every year citizens propose suggestions they think local government should address. They also propose policy programmes designed to resolve public issues. They could then submit these suggestions to local governments directly or indirectly (i.e., regional committees collect, review, screen and eventually relay more feasible proposals to local governments.) Those suggestions could be made via online or offline channels according to technological capacities of local governments.
2. Stage 2: Once proposals are collected, the proposals undergo a review process on a collective review basis. In most local governments, a so-called "PB committee" takes on the task of reviewing and making a decision on budget allocation on the proposed programmes. The PB committee usually comprises volunteers and citizens recommended by the local council, mayor, or NGOs. The details about PB committees are specified in the next section with Figure 3 and Figure 4.
3. Stage 3: The local council, which is the legislative body in every local authority reviews and approves the PB committee's recommendations. Prior to the PB system, Stage 2 was one of the major and sole roles of the local council, which consists of representatives elected through general elections. Since the adoption of PB systems in local government, a part of the function of reviewing policy programmes came under the authority of the PB committee. Nevertheless, the local

council makes the final and conclusive decision on budget allocation to programmes proposed through the PB system.

Figure 2. Annual process of PB

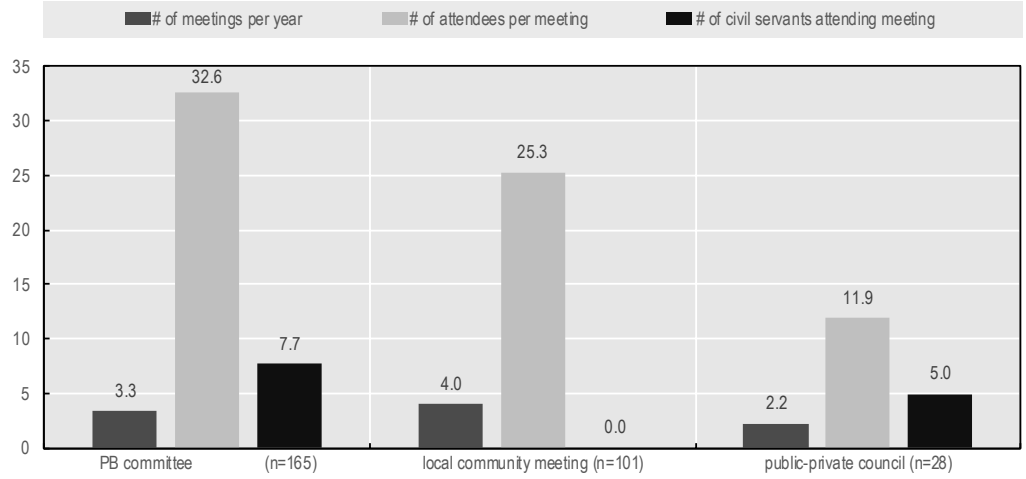


PB governance

The PB system operates on a collective decision-making basis, notably getting citizens involved in the budgeting process. Such collective decision making is made by various PB-related organisations that are employed to fit the unique governance contexts of each local government. However, despite such variations, there are three kinds of organisations that are commonly operated by the majority of local governments: the PB committee; local community meetings; public-private councils.

As seen in Figure 3, the form of organisation most widely used for PB operations is the PB committee. As discussed earlier, the PB committee is an entity consisting of citizens who are legitimately empowered to make decisions on policy programme reviews and budget allocations. For some larger local governments such as metropolitan or provincial governments, a deliberation process by citizen participants is conducted in multiple stages. For instance, some local governments employ, besides the PB committee, additional organisations or methods such as local community meetings or public-private councils in order to help the PB committee to conduct an *ex ante* review of policy programmes proposed by citizens.

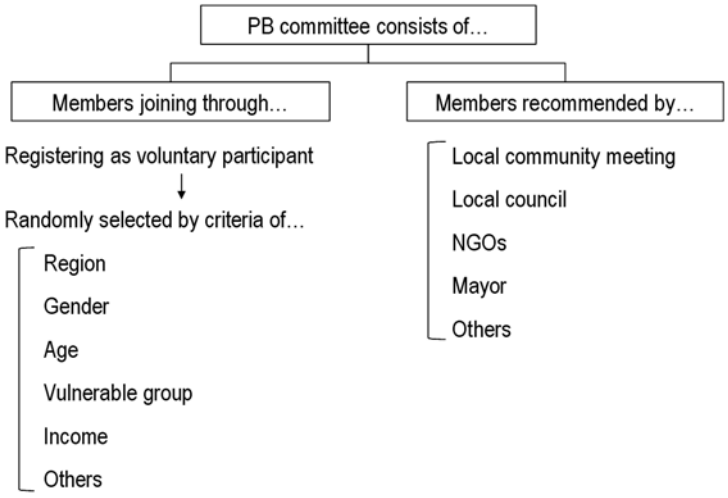
Figure 3. Organisations for PB governance



Source: Adapted from Kim, Lee, & Lee (2016)

The PB participants can get themselves involved through two channels. The first way for the public to join in the PB process is to recruit themselves by volunteering to participate in PB. To begin with, citizens apply for PB participation through either online or offline channels. Then a pre-determined size of people are randomly recruited among the applicants based on diverse selection criteria such as region, gender, age, vulnerable group, income, etc. The second way to participate is via recommendation by others in a local community meeting, by local council, by NGOs, and by a mayor. The quota for each recommender is pre-determined by ordinance (see Figure 4.)

Figure 4. Number of local governments that employ each of PB participant selection criteria



Source: Adapted from Kim, Lee, & Lee (2016)

PB and management capacity

From a financial management aspect, the respondents of the survey reported that financial conditions of local governments influence their PB budgets most significantly. In detail, 27.9% (64) of local governments have appropriated an annual budget for PB programmes expenditure in advance. On average, PB-related expenditure is about 1% of the annual grand budget.

As for human resource management of PB systems, almost all local governments appoint a small number of civil servants in charge of PB management. A total of 89% (204) of local governments appoint only one public manager in charge of the PB management; 7.9% of local governments assign two civil servants for PB tasks. In addition, most of the PB managers (97.8%) said that their job descriptions contain multiple responsibilities besides PB tasks.

Many local governments (146 or 63.8%) provide monetary incentives or rewards to citizen participants. Such monetary incentives are provided in the form of consultation fees (offered by 133 local governments). And some local governments (13 in numbers) also offer PB participants transportation fees or meals.

PB outputs

One measure of PB outputs can be the extent to which citizens suggest budget proposals. The average number of PB programme proposals submitted by citizens varies according to local government levels. In short, citizens' participation in PB at the metropolitan level is more active than at the provincial level. The number of annual proposals for PB at each level is: 120 at City level; 63.7 at Gun level (county in metropolitan or provincial area), and 48.2 at Gu level (district in city area), on average.

The respondents were asked to answer the question "what are the three major policy domains for PB projects?" Summing up their responses, the top five policy domains of PB budget allocations turned out to be 1) public order and security, 2) social welfare, 3) culture and tourism, 4) land/local development, and 5) transportation (See Table 1).

Table 1. What are the three major policy domains for PB projects of your local government?

Policy domains	Rank			Grand rank (in inverse order)
	1st	2nd	3rd	
Public order and security	3	2	2	7
Social welfare	2	3	3	8
Culture and tourism	6	4	1	11
Transportation	4	1	8	13
Land/local development	1	6	6	13
Environment protection	8	4	5	17
Agriculture, maritime, & forestry	5	5	7	17
Public administration in general	7	7	4	18
Education	8	8	10	26
Industry/small-medium business	9	9	9	27
Public health	10	10	11	31
Others	9	10	12	31
IT development	10	11	13	34

Source: Adapted from Kim, Lee, & Lee (2016)

PB impacts: Public managers' perspective

Public managers' perceptions of and experience with citizen participation has been considered as the factor that influences the success of citizen participation programmes (Jung, Kim, and Kim, 2014; Ryoo, 2013; Kim, 2012; Park, 2002). For instance, public managers' positive experience and assessment of PB may bring positive impacts on the effectiveness of citizen participation programmes.

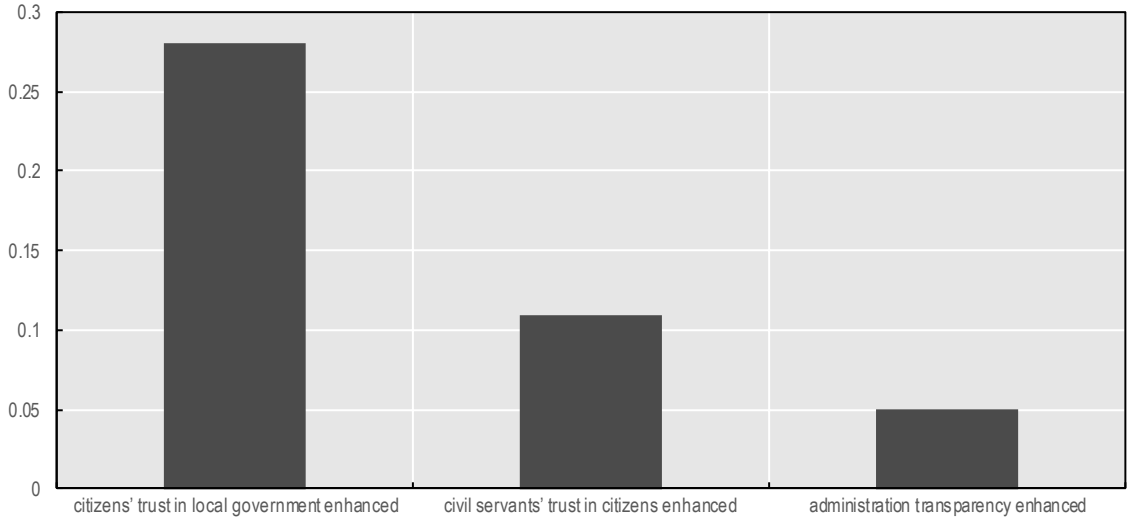
PB systems adopted and implemented by local governments are leaving multi-dimensional effects. Considering the core purpose of PB, which is to embody participatory governance in the budgeting process, the most expected and ultimate value of PB might be trust between citizens and civil servants through a transparent and accountable policy process.

The respondents of the survey were asked to assess the three main values of PB systems based on their own perception. Figure 5 shows, based on standardised scores, that all three major values of PB are perceived to be positive. In other words, PB managers think that transparency of administration and mutual trust between citizens and civil servants improved, thanks to the PB system. The most perceivable value of PB is "citizens' trust in

local government" which is followed by "civil servants' trust in citizens" and "administration transparency".

1. **Administration transparency**: One of the foremost benefits of a PB system may be transparency that will lead to better integrity, accountability and responsiveness in budgeting systems and public services as a whole. As PB systems proactively involve citizens in the budgeting process, both actual and perceived transparency may be more likely enhanced through an official opportunity for citizens to access budget information and decision making inside local administration that used to be perceived as a "black box" by the public.
2. **Citizens' trust in local government**: Most PB managers reported that PB systems helped enhance citizens' trust in local government. Such perception may stem from several sources that a PB system poses. First, citizen participants of PB closely interact with public officials so that they can build a rapport by vividly watching civil servants' efforts and by experiencing the constraints of the budgeting process that civil servants face. Second, even the general public who do not participate in PB may have favourable sentiments toward local government as long as they are aware that the door of opportunity to participate via PB is always open.
3. **Civil servants' trust in citizens**: The trust between citizens and local government is basically a mutual perception. For such mutual trust, civil servants' trust in citizens is as important as citizens' trust in local government. The survey shows that PB managers think their trust in citizens was also enhanced thanks to PB systems. PB brings a new opportunity for civil servants to interact and collaborate with citizens. It provides public officials with new knowledge about citizens such as their actual needs, willingness to contribute, capability of resolving conflict, and potential of making reasonable decisions. In turn, this new understanding of citizens may help civil servants design policies and policy processes that are better tailored to citizens.

Figure 5. Impacts of PB on trust and transparency of local government



Note: Due to the different scales of measurement, the scores were standardised by using the formula of *(mean value – neutral value)/standard deviation*.

Besides the three main values of a PB system, there are other beneficial impacts and challenges reported by PB managers. Such vivid voices of PB managers are quoted and summarised in Box 4.

Box 4. Benefits and challenges of PB in Korea: PB managers' voices

Benefits of PB

- "PB helps us recognise citizens' demands more effectively."
- "PB provides us with a guideline for the prioritisation of budget allocations."
- "The openness of a PB system helps realise democratic budgeting through enhanced transparency, fairness, and efficiency."
- "PB enhances citizens' interest in budgeting and have a better understanding of how local government is managed and constrained financially and administratively."
- "PB fosters co-operation between citizens and civil servants."
- "PB embodies civic autonomy in budgeting systems."

Challenges

- "Participation in PB is below expectation."
- "Being in charge of multiple tasks besides PB, PB managers can be overloaded."
- "Most PB programmes proposed by citizens are designed to benefit certain part of a region, not the whole community."
- "PB participants' authority can be challenged as they were not directly elected."
- "A PB system might be a redundant channel for citizens to participate in local governance."

Conclusion

Policy implications for enhancing public trust in government through PB

Having originated in Brazil, participatory budgeting has been adopted by many countries at the local government level. The core idea behind PB is to complement representative democracy by getting citizens directly involved in policy making. As one of the nations that pursue such participatory governance through PB, Korea is the first and only nation that mandates all local governments to adopt a PB system. Since 2003 when some pioneering local governments in Korea adopted a PB system proactively, PB has been diffused throughout all other local governments thanks to the both voluntary implementation of each local government and inducement from the central government.

Despite the nationwide mandatory adoptions of PB systems, there is much room for each local government to design its own PB system at their discretion in terms of their governance structure, financial situation, personnel capacities, etc. The common features of PB operations of most local governments can be summarised as follows. 1) Policy programmes are proposed, reviewed, and selected by general citizens. The "PB committee"

which is comprised of citizen participants with diverse backgrounds in terms of region, gender, age, etc. deliberates on these policy programmes; 2) PB is operated usually by one or two civil servants, and spends about 1% of the annual budget mainly in such policy domains as security, social welfare, culture and tourism, land/local development, and transportation.

The survey on the PB managers' perceptions on the impacts of PB in Korea shows both expected achievements and challenges to be addressed as follows.

1. PB improved responsiveness of government through a more institutionalised transparency of local governments' budgeting process.
2. PB enhanced mutual trust between the citizenry and local government through more active communication and deeper understanding between them.
3. The authority of PB participants could be challenged as PB is operated mainly by unelected volunteers.
4. As PB provides a new opportunity where participants with more active and diverse interests converge in search of common public interests, conflicts among such diverse interests are more numerous than before.
5. In some local governments where there are other existing channels for citizens to participate, PB can be just another redundant institution that even places more burden on civil servants without significant marginal benefits.

With the benefits and challenges of PB system in mind, PB is expected to keep helping sustain collaborative governance through continuing efforts as follows.

1. Considering that the core idea of a PB system is listening to citizens' voices more directly and broadly, diverse social groups with various backgrounds should be invited to get involved for further inclusiveness and responsiveness through a PB system.
2. Sometimes PB participants may experience power imbalance within the PB committee because of their different social class or personal attributes. The diversity of participants however, is a feature of what PB is designed for. Therefore, not only broad inclusiveness but also equal treatment of participants should be protected proactively.
3. PB functions as a "school of democracy" through which both citizens and civil servants can learn how participatory governance can be pursued and achieved. More practically, even when PB is implemented with enough monetary and institutional resources, successful PB is hard to attain without participants knowledgeable enough to make reasonable decisions for the whole community. Therefore, for both ideological and practical purposes, citizen education on the budgeting process and group decision making should be regarded as equally important as the PB system itself.
4. Despite the mandatory nationwide implementation, detailed design of a PB system is still left to each local government's discretion. Taking into consideration the different contexts in which each local government functions, just following the footsteps of other successful local governments or predecessors would not be the only way leading to successful PB. Therefore, civil servants in charge of PB should be provided not only enough discretion but also training opportunities through

which PB managers can improve their capabilities to design and operate their PBs to fit their specific situational needs and constraints.

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Health financing and budgeting practices for health in the Philippines

By

Joseph Capuno, Ana María Ruiz Rivadeneria, Ivor Beazley, Akiko Maeda and Chris James

The Philippines has placed a strong emphasis on achieving Universal Health Coverage. In recent years, earmarked funds from new alcohol and tobacco taxes have substantially increased government funds available for health. This additional funding offers great potential to improve access and health outcomes, as long as the money is well spent. An important pre-requisite for effective spending is a strong budgetary process for health. In terms of budget formulation and planning, the Philippines government has – at the national level – introduced a comprehensive package of public financial management reforms that apply across all sectors. These have helped to measure results better and link the budget formulation process to the Medium-Term Philippine Development Plan. However, the responsibility for health care budgets in the Philippines is largely devolved to local governments and at the local government unit level there is only a weak link between the local health budget, and strategic plans and targets. Further, the complex relationship between national and local government makes aligning planning and budget formulation difficult. The Philippines government also faces important challenges in budget execution, with under-execution a common problem. Finally, several performance monitoring and evaluation mechanisms exist at the national and local levels. While commendable, to maximise their impact these should better feed into the budget decision-making process.

JEL Codes: H5, H60, I11, I18

*Keywords: Health for All (*Kalusugang Pangkalahatan*), Social Health Insurance, Devolution, Sin Tax Law, Local Investment Plan for Health*

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Executive summary

Effective dialogue and mutual understanding between health and finance officials is critical to achieving health policy objectives, while also ensuring the long-term fiscal sustainability of health care systems. In this case study, the specific challenges that the Philippines faces in health financing and the budgeting process for health are analysed and recommendations made based on comparisons with international good practices. Some examples of good practices from the Philippines that could be shared with other countries are also identified.

The Government of the Philippines has placed a strong emphasis on achieving Universal Health Coverage (UHC) as a principal policy objective. Progress towards UHC has been steady in terms of extending health insurance coverage, particularly to the poor. Based on data from the Philippine Health Insurance Corporation (PhilHealth), by 2017 about 90% of Filipinos were covered. However, the poor have not benefitted from improved access and quality of services to the extent that the expansion of insurance coverage would warrant. Further, high, out-of-pocket payments remain a policy concern, constituting about 57% of health spending in 2014.

While government spending on health remained relatively unchanged in real terms from the early 1990s to 2012, earmarked funds from new alcohol and tobacco taxes have substantially increased government funds available for health in recent years. This additional funding offers great potential to improve access to services and health outcomes, as long as the money is well spent.

An important pre-requisite for effective spending is a strong budgetary process for health. This report finds that the Philippines has made important progress in improving budgetary practices, but that there is room for further improvement. In terms of budget formulation and planning, the Philippines government has - at the national level - introduced a comprehensive package of public financial management reforms that apply across all sectors. These have helped to measure results better and link the budget formulation process to the Medium-Term Philippine Development Plan (MTPDP). Key reforms include an Organizational Performance Indicators Framework, Medium-Term Expenditure Framework, Bottom-Up Budgeting, Performance-Informed Budgeting, and Two-tier Budgeting approaches.

However, the responsibility for health care budgets in the Philippines is largely devolved to local governments. In contrast to the national-level, the link is weak between the local health budget and strategic plans and targets in the MTPDP as well as the Department of Health (DOH) national health objectives in the budget formulation process for health at the local government unit (LGU) level. There are several reasons for this. One is that each of the more than 1 700 provinces, cities and municipalities has fiscal autonomy, and yet most are highly dependent on their formula-driven internal revenue shares from the national government. Received as block grants, the internal revenue allotments are not directly linked to the devolved health functions.

Further, the complex relationship between national and local government makes aligning planning and budget formulation difficult. To help manage a fragmented, devolved health system, the DOH has implemented tools to influence, co-ordinate and manage the spending priorities of the local governments. However, these mechanisms are not well integrated with the local budget process. Since the mid-2000s local governments have instituted province-wide Local Investment Planning for Health to identify priority investments in local health systems over three years, the sources of funds for the proposed investments,

and the counterpart funds of the DOH and local governments involved in the planning. The investment planning also covers estimates for operational costs based on capital investment. Due to a lengthy procurement process, the DOH is often unable to provide precise estimates of the volume of medicines or other in-kind support or their expected date of delivery; thus, the local governments are not able to factor in such DOH assistance during their own local budget preparation.

The Philippines government also faces important challenges in budget execution, with under-execution a common problem. Delays in procurement of medicines and other supplies, and inadequate project preparation for new investments in local health facilities are particularly pressing challenges. Recent reforms administered by the Department of Budget and Management (DBM) have helped reduce under-spending relative to approved budgets. The two-tier budgeting approach provides greater funding certainty for core, ongoing (Tier 1) projects, and only increases allowances for such Tier 1 items if there has been high utilisation of the previous year's budget. The accomplishments of Tier 1 projects, as well as alignment with the president's development agenda, are used to prioritise new projects (Tier 2). Given limited resources at the local level, under-execution of local government budgets have been less significant.

Several performance monitoring and evaluation mechanisms exist at the national and local levels but there is little evidence that the results feed back into the budget decision making process. At the macro-level, a well-developed National Health Accounts (NHA) system tracks the sources and uses of financing for health. The DOH's own budget spending is monitored by the DBM and then audited by the Commission on Audit. In recent years, the DOH has used the Benefit Delivery Rate (BDR) to assess how effective the financial protection that PhilHealth coverage provides is to its beneficiaries. At the local government level, the DOH uses a monitoring and evaluation tool called the LGU Scorecard to assess performance.

Value-for-money audits, or impact evaluations of health spending, are still weak in the Philippines. There is also greater transparency and accountability for budget performance at the national level than at the local level. Under the Two-Tiered Budget Approach now followed by the DBM, each national government agency can only propose new budget items once it has satisfactorily used its past and current allocation, thus instilling fiscal discipline. At the local level, there is not yet a similar mechanism for local governments so, while fiscal decentralisation has brought the government closer to the people, it has not made the local government more accountable to its constituents.

Based on these findings, a number of key recommendations can be made to improve public financial management and budgeting practices for health in the Philippines:

Overall

- Fully implement the LGU Public Financial Management Reform Roadmap. This will help local governments match the progress made in public financial management at the national level.
- Simplify local planning initiatives. In particular, local investment plans for health, local poverty reduction plans and other local development planning activities should be better co-ordinated to ensure consistency and avoid duplicative work.
- Improve the programming and monitoring of the intergovernmental fiscal transfer system. Key policy reforms include:

- Requiring executive agencies of departments such as the DOH to submit to the DBM their detailed plans for fiscal transfers (in cash or kind) to local governments. Then once approved make these plans part of the budget envelope transmitted to LGUs when local budget calls are issued.
- Imposing sanctions on LGUs that fail to comply with the required submission of local plans
- Conducting independent audits or value-for-money evaluations of selected government programmes and projects, and increase the visibility of local financial indicators

For the DOH

- Improve the capacity of the DOH to estimate local resource needs for public health services covered under its vertical programmes (such as tuberculosis, malaria and dengue). This can help reduce stock-outs of medicines and other essential medical supplies.
- Provide LGUs with forward estimates of medicines and other in-kind transfers that will be provided by the DOH. This should be before or early on in the local budget formulation process.
- Improve drug procurement processes and capacity.
- Improve monitoring of usage of medicines and other in-kind transfers. DOH provincial health teams could, for example, conduct random field visits to local health facilities to ensure supplies are being received in a timely manner, and to prevent abuse.

For the LGUs

- Improve implementation of public financial management processes and forms at the local level, to match that level achieved for the national government agencies.
- Reinvigorate the local health boards, including through membership of civil society representatives and participatory health planning.
- Enhance resource mobilisation for health from local tax revenues.
- Invest in local health facilities to acquire PhilHealth accreditation.
- Enhance capacity to produce mature project proposals to be funded out of the HFEP.

For PhilHealth

- Fortify the shift in performance focus from enrolment to benefit utilisation, especially for the poor, and develop the necessary monitoring indicators and information system.
- Strengthen mechanisms to ensure financial viability of the benefit packages, including possibly cost controls and increasing the premium rate for those in the formal sector. Since the poor are now wholly subsidised through the earnings from the sin tax, their premium may also be adjusted to an actuarially fair level (i.e., adjusted for their risks, utilisation rates and cost of care).

1. Introduction

Improving dialogue and mutual understanding between health and finance officials is critical to ensuring the fiscal sustainability of health care systems, particularly in light of increasing public expectations for health care. In order to contribute to this objective, the OECD Joint Network of Senior Budget and Health Officials was established in 2011. This joint network aims to identify and disseminate good practices in managing health care budgets, alongside other policies that can ensure fiscal sustainability. It also aims to improve institutional dialogue, clarity of roles, and common objectives between officials from both health and finance ministries, and other relevant policymakers.

Financing health care and ensuring the sustainability of health care expenditure is not only a challenge for OECD countries. Health systems of emerging economies face similar funding pressures, while also striving to attain and maintain universal health coverage. As a consequence, in 2013 the OECD started expanding the activities of the Joint Network to non-OECD countries, in partnership with the WHO, the Global Fund, CABRI, the Asian and Inter-American Development Banks (IDB, ADB) and the World Bank. The main objective of these expanded activities is to support the development of good budgeting and public financial management practices in countries, thereby helping achieve a sustainable Universal Health Coverage (UHC).

As part of this programme, the OECD carried out a case study in the Philippines (alongside other case studies, regional surveys and regional network meetings). The main objective of this case study is to analyse specific challenges in health financing and budgeting practices for health in the Philippines as well as identify good practices, which could be shared with other countries.

The report is structured around two main parts. First, core characteristics of the Philippines health care system are analysed (Section 2). This includes a description of key milestones in recent decades, an overview of health financing arrangements today, and how health expenditures in the Philippines compare with other countries. The second part then provides a closer look at public financial management arrangements and the budgeting process for health in the Philippines (Section 3). Strengths and weaknesses of budget formulation, execution and monitoring for government health care spending are outlined. Finally, in Section 4, conclusions and overall policy recommendations are provided.

Findings presented here draw from in-depth interviews with key stakeholders in the Philippines, as well as secondary data analyses, reviews of government documentation and the wider literature on health financing. An OECD team visited the Philippines in May 2017 and held extensive interviews with stakeholders involved at the national and local levels in the budget process for health. This included government finance and health officials, at national and local levels and health policy experts from the private sector and academia.

2. Core characteristics of the Philippine health system

2.1. Key milestones in health care system reforms: a largely decentralised system with a strong emphasis on achieving Universal Health Coverage (UHC)

The current setup of the health care sector in the Philippines is the result of three major reforms carried out in the 1990s. First, in 1992, the fiscal decentralisation programme transformed the organisation and financing of the public health sector. Second, since 1997, the national health insurance programme has extended health insurance coverage to nearly

all Filipinos. Third, in 1999, the Department of Health (DOH) instituted a set of reforms designed to achieve universal health coverage in a devolved service delivery and financing setup. Numerous other reforms, adopted since the late 1980s, were intended to further improve access to or delivery of services, determine the types of health services available or define the benefit entitlements of the population covered by insurance. Certain social welfare reforms, since 2000, have also affected the health sector. Table 1 contains the list of major laws that have shaped the health care system in the Philippines since 1987.

2.1.1. Impact of the fiscal decentralisation programme on health

The Local Government Code (Republic Act 7160), enacted in 1991, initiate a fiscal decentralisation programme with the objective of giving greater fiscal autonomy to local governments. The Code devolved various expenditure functions from national government agencies to local governments, comprising provinces, cities, municipalities and villages (*barangays*). It also granted local governments additional powers to raise revenues from local sources, a higher share of national internal revenues, and the proceeds from exploitation of national wealth (e.g., natural resources). In the case of health, the fiscal decentralisation programme transferred authority and responsibility for local health facilities from the DOH to local governments. This included provincial and district hospitals, rural health units, *barangay* health stations, services such as curative and preventive care, disease surveillance and information system, etc., and personnel, including both medical and non-medical staff. In addition, the Code requires each local government unit (LGU) to organise a Local Health Board, which advises the local legislative council (*sanggunian*) on the formulation of the health budget. Members of the Board include local elective officials, health officials, and representatives from the private sector, non-government organisations and the DOH. In many LGUs though, these local health boards are not functioning.

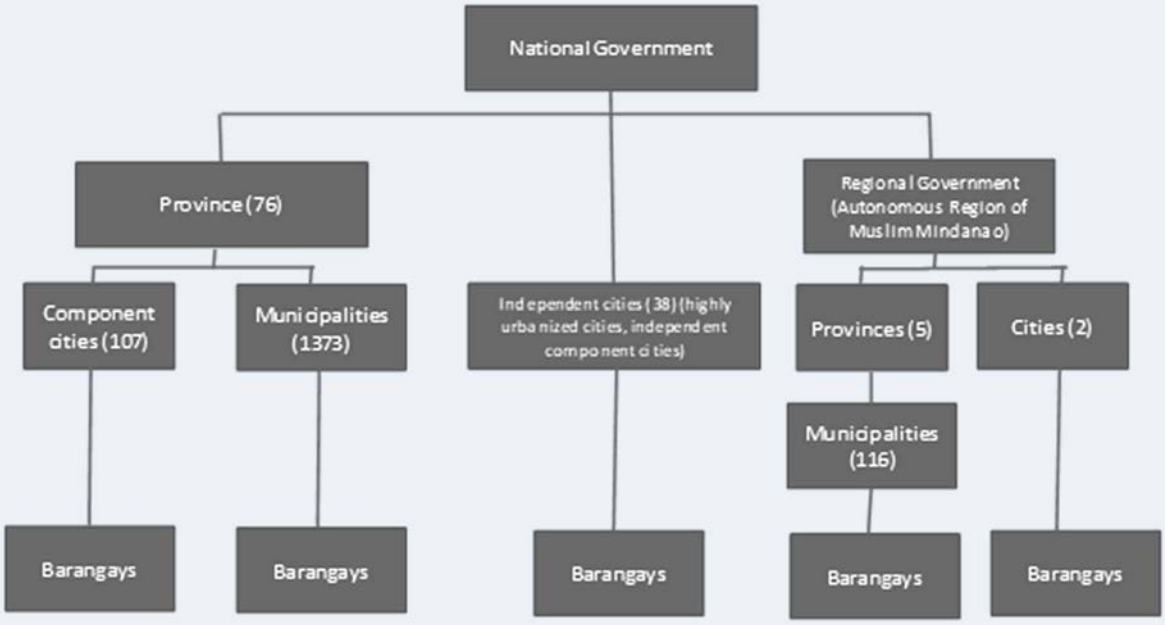
Local health services - comprising mostly those devolved from the DOH, plus a few that were already administered locally (e.g., hospitals owned and operated by cities) before 1991 - are now administered and funded by 81 provinces, 145 cities, 1 489 municipalities and some 42 000 barangays (Box 1). The *barangays* provide basic health care services and day care services. Municipalities are responsible for the implementation of programmes and projects on primary health care, maternal and child care, and for both communicable and non-communicable disease control services. The provinces are responsible for the devolved hospitals. These facilities predominantly provide secondary-level health care services. The provinces are also in charge of co-ordinating health service delivery of the municipalities and cities within their jurisdictions. The cities are assigned the same services and facilities transferred to municipalities and provinces. Some of the wealthiest cities operate their own secondary-level or tertiary-level hospitals. The national government is responsible for the tertiary-level and specialty hospitals, health research and development, and the vertical health programmes like maternal, child-health and family planning services, expanded program of immunisation, HIV/AIDS and Tuberculosis programmes. In addition, the national government, principally through the DOH, extends grants (both cash and in-kind), training support, and technical assistance to local governments to support the latter's' financing, operational and service delivery capacity.

Box 1. Local Government Units in the Philippines

LGUs are organised into three levels. At the top are the provinces, followed by the municipalities and component cities, and, at the bottom, are the *barangays* (or villages). The provinces supervise the municipalities and component cities, which in turn exercise similar authority over the barangays within their jurisdictions. There are 38 so-called independent cities - highly urbanised cities, independent component cities - that are outside the control of the provincial governments and are directly supervised by the national government. These cities also supervise the barangays below them (see figure below).

Also, in pursuit of local autonomy, the Autonomous Region of Muslim Mindanao (ARMM)[1] was created in 1989. Unlike the other administrative regions in the country, in the ARMM there is an autonomous regional government with its own regional-level department of health that supervises the public health system in the region. The LGUs below the regional government are also classified in the same three levels as those in the rest of the country. They enjoy the same fiscal autonomy as those outside the region.

Government Levels in the Philippines



Note: [1]Created in 1989 through Republic Act 6734, the Autonomous Region of Muslim Mindanao encompasses the provinces of Maguindanao, Lanao del Sur, Basilan, Sulu and Tawi Tawi.

Because of the decentralisation process, health provision and financing is strongly fragmented between the different local governments. The DOH deals directly with more than 1 700 provinces, cities and municipalities to co-ordinate the implementation of the national health policy. In addition, the central government has little influence on health expenditure and the way these resources are allocated at the local level. In particular, allocation for health expenditure out of total Internal Revenue Allotments are entirely left to local governments (with some exceptions regarding staff wages). The current set-up imposes challenges in terms of co-ordination, planning, accountability, and monitoring.

There have been recent efforts to start aligning provincial and municipal objectives (e.g. Local investment plans), but these are still limited (see Section 4).

2.1.2. The national health insurance programme

To reduce financial barriers and provide access to health services to all Filipinos, the Republic Act 7875[1] of 1995 created the National Health Insurance Program and the Philippine Health Insurance Corporation (PhilHealth) to administer it. PhilHealth subsumed the functions of the former Philippine Medical Care Commission (Medicare), and extended coverage beyond those formally employed in the government and private sector and the self-employed. To achieve its mandate of extending social health insurance coverage to all Filipinos, PhilHealth initially created three separate membership programmes; one for the formally employed (Employed Program), one for the self-employed and those in the informal sector (Individually Paying Program), and one for the poor (Indigent Program). Subsequently, it has introduced additional membership programmes for overseas Filipino workers, retired employees, senior citizens, and, later in 2011, separate programmes for the poor enrolled by the national government (alone) and for those enrolled by their local governments and other sponsors. On the benefit side, PhilHealth has gradually expanded the benefit packages it offers, especially for the poor and those with expensive chronic ailments.

Table 1. Major Legal Frameworks for Health Reforms, 1988-2016

Year	Health Reforms
1988	**Republic Act No. 6675 (Generics Act of 1988)** Aims to promote and assure adequate supply, distribution and use of generics drugs and medicines. This law also emphasises increased awareness among health professionals of the scientific basis for the therapeutic effectiveness of medicines and promotes drug safety.
1991	**Republic Act No. 7160 (Local Government Code of 1991)** Paves the way for the devolution of health services to local government units.
1995	**Republic Act No. 7875 (National Health Insurance Act of 1995)** Seeks to provide all Filipinos with the mechanism to gain financial access to health services, giving priority to those who cannot afford such services; Establishes the National Health Insurance Fund and the Philippine Health Insurance Corporation to administer the programme.
1999	**Health Sector Reform Agenda (HSRA)** Aims to improve the way health care is delivered, regulated and financed through systemic reforms in public health, the hospital system, local health, health regulation and health financing.
1999	**Executive Order 102, s. 1999** Redirects the functions and operations of the DOH to be more responsive to its new role because of the devolution of basic services to local government.
2004	**National Health Insurance Act of 1995 amended to Republic Act No. 9241**
2004	**Executive Order no. 276, s. 2004** (PCSO Greater Medicare Access Program) Provided for the use of funds from the Philippine Charity Sweepstakes Office to the pay of the full LGU counterpart, and with the national government still paying its counterpart, in enrolling 539 670 indigent families in PhilHealth.
2005	**DOH Department Order No. 2005-0023** (Implementing Guidelines for the FOURmula ONE (F1) for Health as Framework for Health Reforms) Implements reform strategies in service delivery, regulation, financing and governance as a single package, supported by effective management and financing, with focus on critical health interventions.
2008	**1988 Generics Act– amended to Republic Act No. 9502** (Cheaper and Quality Medicines Act) Allows the government to adopt appropriate measures to promote and ensure access to affordable quality drugs and medicines for all.

Year	Health Reforms
2010	**DOH Administrative Order No. 2010-006** (Aquino Health Agenda: Achieving Universal Health Care for all Filipinos) Specifies key health reforms and implementation strategy of the Aquino government, with focus on financial risk protection through expansion in NHIP enrolment and benefit delivery, improved access to quality hospitals and health care facilities, and the attainment of health-related MDGs.
2010	**Republic Act No. 7432** (Senior Citizens Act) as amended by **Republic Act No. 9257**, and then further amended by **Republic Act No. 9994** (Expanded Senior Citizens Act of 2010) This law grants senior citizens further benefits and special privileges, including 20% discount and exemption from paying the expanded-VAT for, among others, purchasing medicines, availing of hospital services or paying the professional fees of physicians and other medical professionals.
2011	**DOH Administrative Order No. 2011-0188** (*Kalusugang Pangkalahatan* Execution Plan and Implementation Arrangements) Mandates the PhilHealth enrollment of 4.89 million indigent households in the National Household Targeting System for Poverty Reduction list, including the beneficiaries of the *Pantawid Pamilya Pilipino Program* using the 2011 GAA subsidy for the NHIP premium of indigents.
2012	**Republic Act No. 10351** (Sin Tax Law of 2012) Restructures the excise tax on alcohol and tobacco; specifies that after deducting allocations under RA. 7171 and 8240, 80% of incremental revenues shall be allocated for universal health care under the National Health Insurance Program, attainment of the MDGs and health awareness programs; with 20% allocated nationwide, based on political and district subdivisions, for medical assistance and health enhancement facilities programme, as determined by the Department of Health (DOH)
2012	**Republic Act No. 10354** (RH Law of 2012) Mandates the provision of information and access to all methods of family planning, with priority given to poor beneficiaries, as identified in the NHTS-PR. This assigns the procurement role to the DOH, while implementation is assigned at the LGU level.
2016	**Philippine Health Agenda 2016-2022** The health agenda of the Duterte government: specifically, it aims for universal health coverage, to strengthen implementation of the RH Law, wage war against drugs and provide additional funds from the Philippine Gaming Corporation.

Note: The list is adapted from and updates the list in WHO (2011).

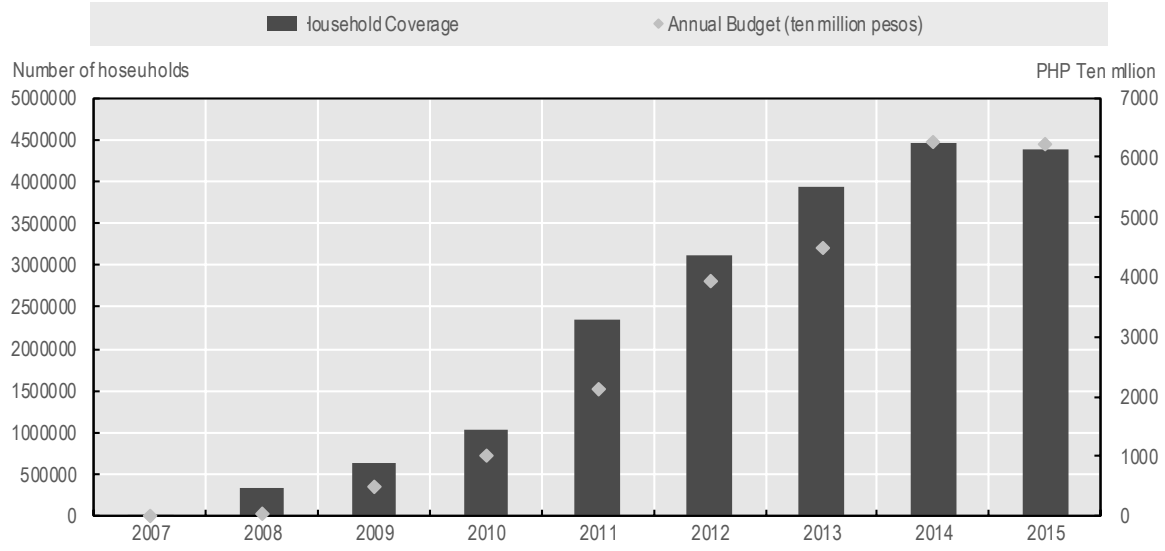
Among the health laws passed since 2005, two are especially critical to attaining UHC. First, the Universally Accessible Cheaper and Quality Medicines Act of 2008 (Republic Act 9502) broadens the powers of the DOH to regulate the quality and prices of medicines and in July 2009, the President issued Executive Order 821 that prescribes the maximum retail prices of selected drugs and medicines, especially for the treatment of diseases that are leading causes of morbidity and mortality. Following the issuance of EO 821, several drug companies are reported to have voluntarily reduced the retail prices of selected drugs (in addition to those prescribed by the DOH) by up to 70%. However, a report commissioned in 2010 by the Department of Trade and Industry and the DOH reveals that only a minority of doctors prescribed them over the branded counterparts (WHO, 2011).

Second, the Responsible Parenthood and Reproductive Health Act of 2012 (Republic Act 10354) mandates that all public health facilities provide a full range of modern family planning methods, including medical consultations, supplies, and procedures. The law also requires the DOH to "procure, distribute to LGUs and monitor the usage of family planning supplies for the whole country." The full implementation of the law, however, is stalled via temporary restraining order issued by Supreme Court upon the petition of anti-RH Law advocates.[2]

Since the 2000s, there have also been social welfare and other reforms that have had major implications for the utilisation and financing of health services in the country. One of the most important of these anti-poverty reforms is a conditional cash transfer (CCT) programme patterned after similar schemes operating in Brazil (*Bolsa Familya*) and Mexico (*Opportunidades*). First piloted in 2007, by 2015 the *Pantawid Pamilya Pilipino*

Program (4Ps) had expanded to nearly 4.5 million households in all provinces and the programme's annual budget ballooned to nearly 60 billion pesos (Figure 1). The main benefit is a regular cash transfer, based principally on the number of qualified school-aged children, paid subject to certain conditions being fulfilled, such as school attendance. This public investment is expected to break the vicious circle of intergenerational poverty by improving the educational attainment and the health status of children (0-14 years initially, now 0-18 years), and the health status of pregnant women in poor households.

Figure 1. Household coverage and annual budget of the Pantawid Pamilya Pilipino Program, 2007-2010



Source: Department of Social Welfare and Development, and General Appropriations Act (various years).

In addition to ensuring their children attend school, *Pantawid* households also requires young family members and pregnant mothers to attend health clinics for check-ups, vaccinations and other necessary medical interventions.

Another offshoot of the CCT programme relevant to UHC is the National Household Targeting System for Poverty Reduction (NHTS-PR), now known as the *Listahanan*. NHTS-PR identifies the poor households using a proxy means test. From the NHTS-PR list of poor households, the prospective CCT beneficiaries are then further identified based on additional eligibility criteria. Starting in 2011, all the poor households in the NHTS-PR list were extended PhilHealth coverage with the issuance of the DOH Administrative Order 2011-0188. The full PhilHealth premium subsidies of the indigents in the NHTS-PR list was funded from the national budget (General Appropriations Act). Before this, poor families enrolled under the PhilHealth's Sponsored Program were identified or selected by local governments and their premiums subsidised jointly by their local governments and national government or other sponsors (e.g., private donors, other local officials).

The sustained financing of PhilHealth coverage of NHTS-PR poor households was later assured by the Sin Tax Law of 2012 (Republic Act No. 10351), which earmarked a portion of the incremental revenues[3] for universal health care. The earmarked tax revenues for health is used to finance PhilHealth coverage of NHTS-PR poor households, enhancement of health facilities, and health awareness programmes. Based on the figures in various General Appropriations Act, the earmarked amounts for UHC are staggering. From around PHP 3 billion in 2011 and PHP 3.73 billion in 2012, the national government's budget

appropriations for the PhilHealth coverage of the indigent households grew to PHP 12.6 billion in 2013. By 2015 the amount ballooned to PHP 35.3 billion, affording a very wide fiscal space for UHC.[4]

The other UHC-relevant social protection policy reforms are the Expanded Senior Citizens Act of 2010 (Republic Act No. 9994) and An Act Providing for the Mandatory PhilHealth Coverage for all Senior Citizens (Republic Act No. 10645), both specifically enacted for the benefit of Filipinos aged 60 years and above. The first law provides a 20% discount and exemption from the value-added tax (VAT) on purchases of drugs and medicines, fees paid to health professionals and facilities (hospitals and clinics), and fees for medical and laboratory tests. Passed in 2014, the other law ensures the enrolment of all individuals 60 years old and above by identifying sin taxes as a fund source for those who are not covered in any existing PhilHealth programme. The new members are enrolled under the PhilHealth's Lifetime Membership programme, which previously included only those that were enrolled under the Employed Program before they retired from work.

2.2. The Universal Health Coverage agenda

2.2.1. Universality an enduring government policy

Extending health coverage to all Filipinos has been and remains a major government policy. The themes alone of the previous government's National Objectives for Health 2011-2016 and the current government's Philippine Health Agenda 2016-2022 are already evocative: *Kalusugan Pangkalahatan*[5] and *All for Health Towards Health for All*, respectively. Under the Aquino Health Agenda, achieving universal health coverage (UHC) is operationalised to mean: 1) conferring financial protection, especially for the indigent population, against catastrophic health expenditures, through the expansion of coverage and benefits under the social health insurance programme; and 2) improving the responsiveness and quality of health facilities and services to enhance client satisfaction, both geared towards attaining better health outcomes, especially those MGDs related to health. The Duterte government's own health plan aims to attain the health-related SDG targets through extending health insurance coverage to all, thus ensuring each Filipino "financial freedom when accessing services", at all stages of life and against both communicable and non-communicable diseases and those health problems associated with rapid urbanisation (like mental illness and injuries). The main health goals and strategic policies are also reflected in the Medium Term Philippine Development Plan (or Philippine Development Plan), which is a summary and articulation of the incumbent administration's goals and programme of action in a running three-six year period (Appendix 1).

The Philippine Health Agenda 2016-2022 is continuation of a sector-wide, strategic planning approach that the DOH initiated in 1999 with its Health Sector Reform Agenda (HSRA). Under the HSRA, the DOH set out the national objectives for health and implementation strategies covering five key reform areas: hospital services, public health, local health system, health regulation, and health financing. HSRA provided the template for subsequent health reform initiatives: the *Formula One for Health* of the Arroyo administration, the *Kalusugang Pangkalahatan* of the Aquino administration, and the *Philippine Health Agenda 2016-2022* of the current Duterte administration. A common objective of these reform agendas is to attain universal health coverage (UHC).

While differing in some details, health policies of the Estrada, Arroyo, Aquino and Duterte administrations have followed the same policy themes ("Health for All") and strategic thrust particularly expanding social health insurance coverage. This continuity could be

ascribed to the evolving health needs of a growing, urbanising population. However, in the last ten years, there also have been shifts in social protection policy and new legislations, and government-wide reforms in budgeting and public financial management reforms, amidst an economic growth streak that widen the fiscal space, that impinge on the public health system and the attainment of UHC.

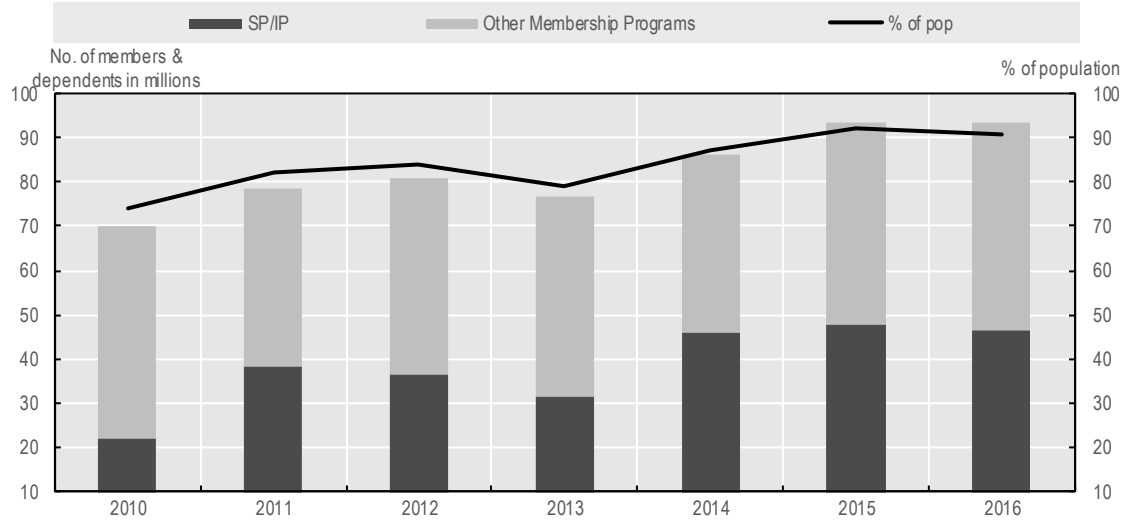
The DOH faces several challenges as it steers the key actors in the sector towards achieving the goal of UHC. As the population continues to grow and concentrate in fewer regions, it is increasingly afflicted with lifestyle-related illnesses and those related to urbanisation, even as infectious diseases remain prevalent, especially among the poor. According to the Philippine Statistics Authority, the population grew from 76.51 million in 2000 to 92.34 million in 2010 to 100.98 million in 2015. By 2045, the population is expected to grow by 44 million (compared to 2015). Changes in the age-distribution and spatial concentration of the population will also have bearing on the health sector. The country may realise a huge demographic dividend, since the working-age group (15-64 years) will remain the majority of the population for many years. Hence, keeping this age group in good health is a good health policy objective.

2.2.2. Progress towards UHC has been made, but more work still needs to be done to ensure effective coverage for all Filipinos

Progress towards UHC can be measured in several ways. The preferred indicator among policymakers in the Philippines is universal health insurance coverage. Perhaps this is just as well since the National Health Insurance Act of 1995 specifically mandates the coverage of all Filipinos (by 2005). Health insurance coverage also implies financial risk protection. The second measure is equitable access and health outcomes. By either measure, the country has made some progress since 2000, but the health coverage is still less than universal or fully equitable.

The difficulty of extending universal health insurance coverage became immediately evident in the case of the indigent families whose insurance premium was to be paid jointly by their local governments and the national government. From 1997 to 2003, there were only a few LGUs participating in the programme because of their dire financial capacity. To get over this hurdle, then President Gloria Macapagal Arroyo issued Executive Order No. 276 in 2004 to establish the PCSO Greater Medicare Access Program. The objective was to enlist around 540 000 indigent families in PhilHealth, using funds from the Philippine Charity Sweepstakes Office and the national government. But enrolment was not sustained in subsequent years. A similar strategy was adopted in 2011 when the national government set aside funds under the General Appropriations Act for the premium payments of all poor households in the NHTS-PR list, and then later enrolled the same group, using the proceeds from the sin tax law. Since much of the earmarked sin tax revenues is meant to subsidise the enrolment of the more than 4 million pre-identified poor households in the NHTS-PR list, then most of the poor should have PhilHealth coverage. National subsidies were also expanded to the 'near poor' from 2012. According to PhilHealth, by 2010 it had extended coverage to over 70% of all Filipinos. By 2016, its coverage rate had increased to 90%. The number of beneficiaries (members and their dependents) enrolled under the Sponsored Program/Indigent Program rose from about 22 million to around 46 million in 2016 (Figure 2). Since the total SP/IP beneficiaries already account for nearly half of the entire population, and with the latest official poverty rate of less than 25%, then it seems nearly all poor Filipinos had PhilHealth coverage by 2016.

Figure 2. PhilHealth Beneficiaries, 2010-2016



Source: Philippine Health Insurance Corporation (Stats and Charts, various years).

Yet, the results of various official national household surveys belie PhilHealth claims. Surveys consistently show that the proportion of respondents who claim to be either members or dependents of members of PhilHealth (even when sampling weights are applied) is below the coverage rate reported by PhilHealth (see, for example, Bredenkamp and Buisman, 2015; Bredenkamp et al., 2016a). While self-reported coverage status may be subject to recall bias and other response errors, the consistent and wide differences in self-reported coverage rates and those based on administrative records cannot be easily ignored.

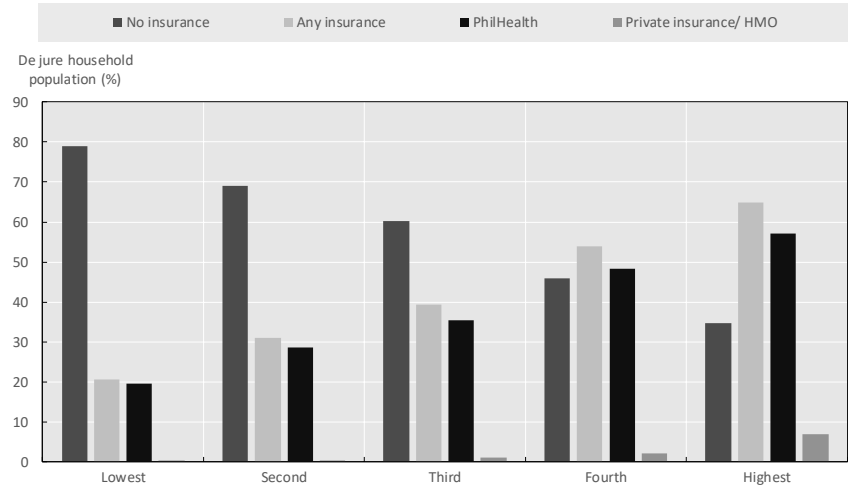
According to the results of the National Demographic and Health Survey (NDHS) conducted in 2008, before the sin tax law was passed and the NHTS-PR list of poor households had been drawn up, only about 38% of the entire population and around 20% of those in the lowest wealth quintile had PhilHealth coverage (Figure 3 (a)). According to the results of the NDHS conducted in 2013, the first year of the implementation of the sin tax law, the proportion of population with PhilHealth coverage rose to 60.3%, while that of those in the poorest wealth quintile rose to nearly 62%. For the same year, PhilHealth reported about 77% coverage rate (Figure 3 (b)).

Aside from response errors, there are additional reasons for the discrepancy in the self-reported coverage rates and those based on PhilHealth administrative records. One reason is that the proxy means test (PMT) protocol used in the first round of NHTS-PR listing is known to lead to both inclusion and exclusion errors (Fernandez and Velarde, 2012). As such, the NHTS-PR list of poor households derived from using the PMT protocol may include several non-poor households and exclude some of the truly economically disadvantaged. Another reason is that the NHTS-PR lists poor households, whereas PhilHealth enlists poor families. A household may include more than one nuclear family (mother, father, children); even within a nuclear family, there could be several principal PhilHealth members (for example, a child who is able bodied and over 21 may not qualify as a dependent of his or her father, even if the latter is a PhilHealth member). Thus, by its own membership rules, PhilHealth may be enrolling more families than those listed in the NHTS-PR (Bredenkamp et al., 2016b). Lastly, those in the NHTS-PR list of households

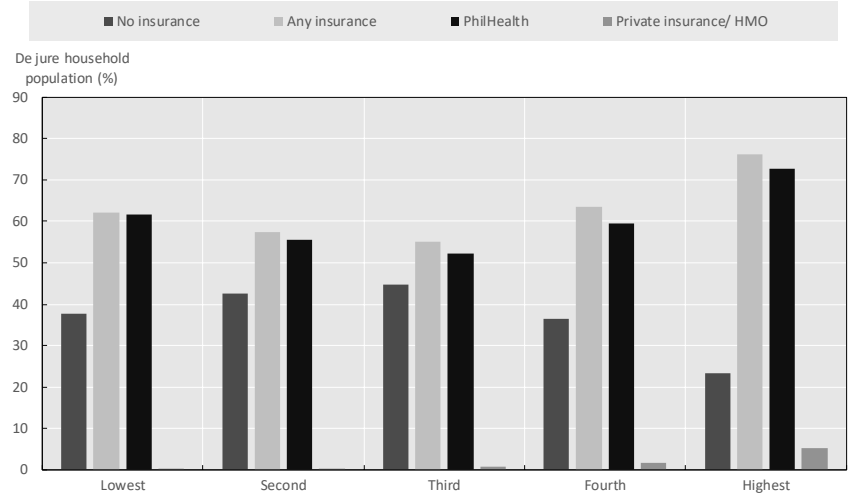
may not have been aware of their PhilHealth enrollment, since they were "automatically enrolled", and possibly never got their PhilHealth membership ID cards (Bredenkamp et al. 2016a).

Figure 3. Health Insurance coverage rates (in %) of de jure household population, by wealth quintile

(a) 2008



(b) 2013



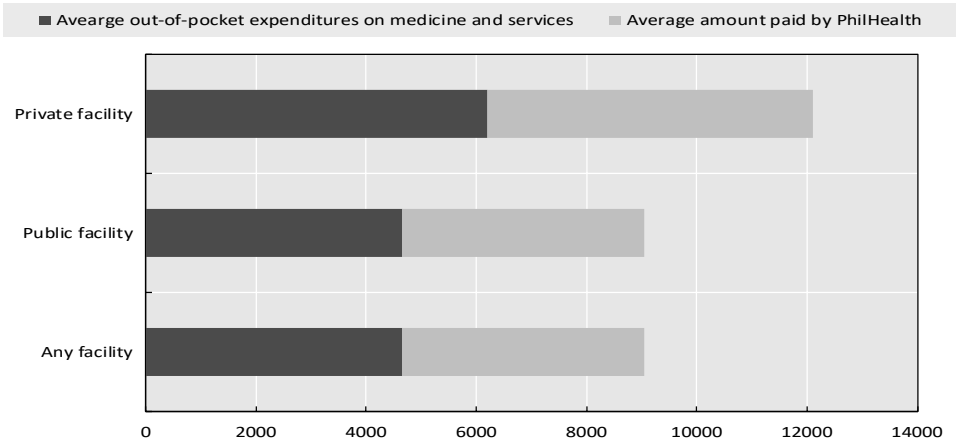
Source: Philippine National Health and Demographic Survey 2008, 2013.

For PhilHealth coverage to be meaningful, those insured should be protected from catastrophic health expenditures as well. In the last ten years, PhilHealth expanded its benefit packages to cover those medical conditions and illnesses that are expensive to treat. Among the relatively new disease-specific benefit packages are hemodialysis, and treatment of human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS), malaria, tuberculosis, dengue, cervical cancer, breast cancer, prostate cancer, and leukemia (the last three are part of PhilHealth's 'catastrophic Z benefit' package). With these insurance benefits, the out-of-pocket payments (OOPs) of members for hospital care

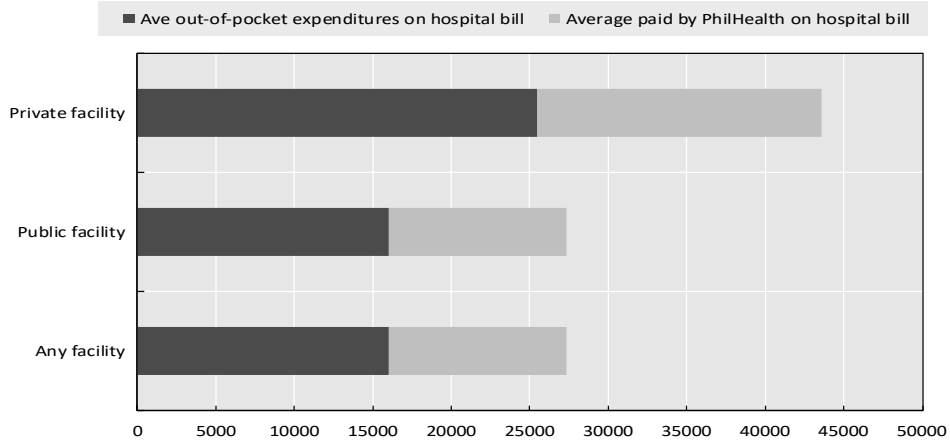
are expected to be reduced. The results of the 2013 NHDS show that PhilHealth covers only about half of the bills paid to public health facilities and about a third of the bill paid to private health facilities, by those who sought hospital care in the last 12 months prior to the survey. Further, households paid out of their own pockets more than half of the expenses for medicine and services purchased outside hospitals. (Figure 4 (a) and (b))[6].

Figure 4. Average costs of care (in pesos), for those confined in a hospital or clinic in the last 12 months, 2013

(a) Medicine and services purchased outside the hospital.



(b) Hospital bill

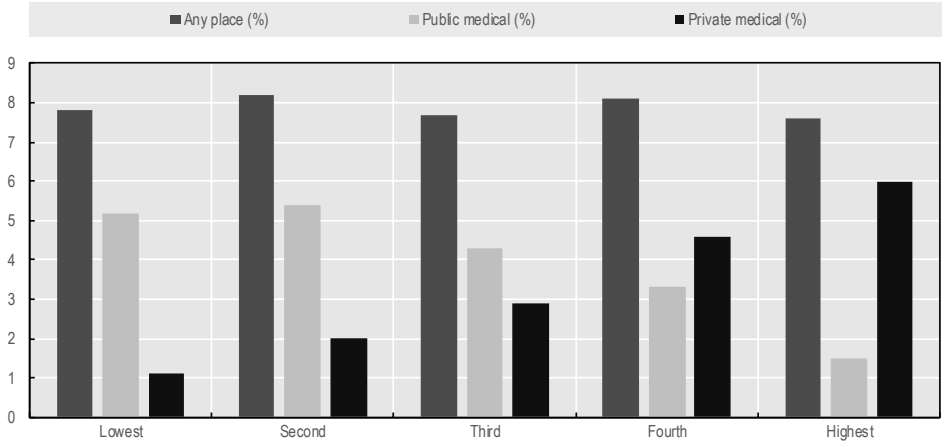


Source: Philippine National Health and Demographic Survey 2013.

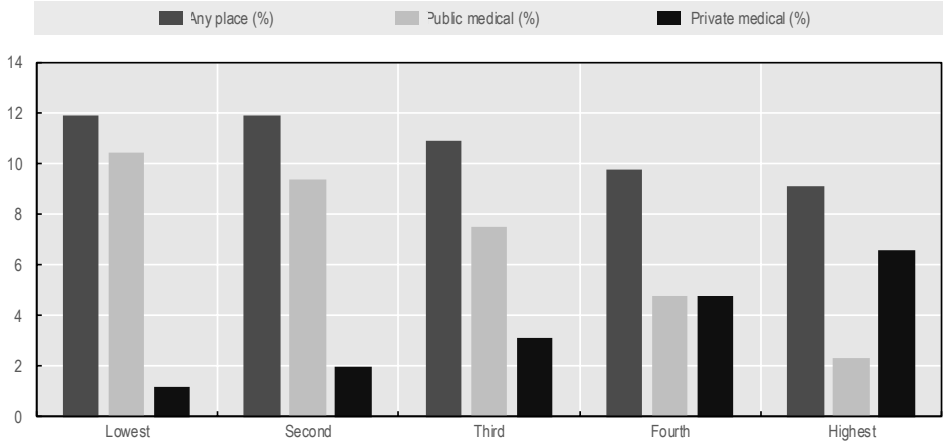
Open and free access to care, especially by the poor is also an operational definition of UHC. The pro-poor bias in public health service delivery should narrow the gap in health outcomes between the poor, marginalised and vulnerable households and the well-to-do families. A comparison of the results of the 2008 and 2013 rounds of the NDHS reveals that access to public medical facilities has improved overall, but more markedly for those in the lowest two wealth quintiles (Figure 5). This could be the result of the CCT program inducing health seeking behaviour. However, access to private medical facilities has not improved much for any wealth quintile between 2008 and 2013. This could mean that, despite the expansion in PhilHealth coverage and benefit packages, private medical care remains out of reach for most Filipinos.

Figure 5. Percentage of de jure household population who visited a health facility or sought advice or treatment in the 30 days before the survey, by type of place first visited, by wealth quintile

(a) 2008



(b) 2013



The steady progress towards UHC in the last decade arguably follows from the major health financing reforms adopted over the same period. However, the slow progress towards the desired health outcomes indicates possible weaknesses in the financing arrangements and service delivery arrangements in the health sector. The following sections focus on the trends and composition of health care spending of the three major public sector actors - DOH, PhilHealth, LGUs - and how they are affected by recent public financial reforms.

2.3. Financing of the Philippines health system today

2.3.1 The main government bodies responsible for financing health

The supply side of the health sector has two sets of major players, namely the public sector and the private sector (Figure 6). The private sector comprises, on the one hand, the health facilities (hospitals, clinics, laboratories, pharmacies) and professionals (MDs, nurses, midwives, pharmacists, medical technologists, etc.) that directly provide health services or commodities to patients and clients; and on the other, the health maintenance organisations and private health insurance companies that help pay for the medical bills of their members

(and their covered dependents). For their services, the private health providers are paid directly by their patients and/or by a third-party (PhilHealth, health maintenance organisations (HMO), private health insurance companies). Government-employed doctors can also have their own private practice.

Within the public sector, the key players are the DOH, PhilHealth, and the local governments. Playing a stewardship role, the DOH has the fiscal resources, service delivery capacity, and regulatory powers to steer the health sector towards universal coverage. The DOH is basically organised into a central office and 17 regional offices called Centers for Health Development(CHD), one for each of the country's 17 administrative regions. The DOH also operates 56 regional hospitals and medical centres, 10 sanitoria, research institutes and mental hospitals. Supervision and control over most of these hospitals are assigned to the CHDs. In addition, the CHDs administer public health programmes within their respective regions. The CHDs deploy provincial health teams (PHT) to co-ordinate with local health officials, to facilitate and provide assistance in local health planning, and oversee the implementation of DOH programmes and regulations. The PHT also serves as conduit of local concerns to CHDs. The DOH draws its annual budget from the national government; although it also gets support (mostly in-kind) from development partners (like the USAID, WHO, WB and ADB) and foreign governments (like the EU). The DOH central office allocates budgets to the CHDs, who may then use the funds for operations, fund capital investments, or provide cash or in-kind transfers to local governments.

The DOH central office also supervises four big specialty hospitals: the Philippine Heart Center, the National Kidney and Transplant Institute, the Lung Center of the Philippines, and the Philippine Children's Medical Center. All located in Metro Manila, the four specialty hospitals are considered as government owned and controlled corporations (GOCCs), with their own Board of Trustees, chaired by the DOH Secretary. They manage their own revenues, which are mostly payments from patients or third-parties. Since they charge fees at below cost, these hospitals still get annual budget allocations from the central government. As such, they have fiscal and operational autonomy from the DOH. By deconcentrating powers and responsibilities from the central office to the CHDs, the DOH adapts to devolution of health services effected in the 1990s.

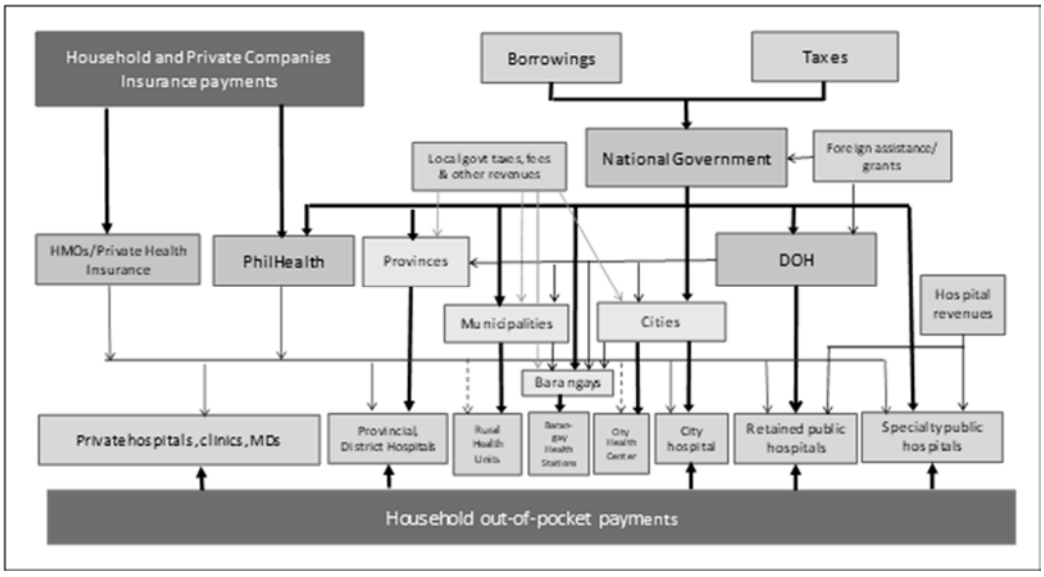
PhilHealth earns its revenues mostly from insurance premiums paid by members and/or their sponsors, and from interest earnings (on its deposits and investments). Under its charter, the Philippine Health Insurance Corporation is responsible for its own finances like any typical GOCC, and does not get an annual budget appropriation from the central government. While the DOH Secretary sits as the Chair of the Board of Trustees of PhilHealth, it enjoys fiscal and operational autonomy from the DOH. Benefit payments constitute the bulk of PhilHealth expenditures. By its charter, its annual operating budget is capped to a fixed percentage of its premium income. In the Philippines Health Financing Strategy for 2010-2020 and recently proposed Universal Health Coverage bill, the role of PhilHealth is envisaged to be enhanced, so that they operate as the main national purchaser for health services.

Local governments fund their health services from local tax revenues, fees and payments received for services (including health), and different kinds of transfers from central government. A few receive external grants (from private or foreign sources) or other local governments, but these are infrequent and relatively small. By far, the most important revenue source for most local governments is the internal revenue allotment (IRA), which is their share of revenues collected by the national government from income taxes and

excise taxes.[7] The IRA is a formula-driven block grant that the national government releases automatically and directly to each LGU.

In addition to the IRA, local governments also receive conditional grants from national government agencies like the DOH. (More on these DOH conditional grants in later sections). Local hospitals and clinics also collect minimal fees from patients, and those that are accredited could also claim reimbursements from PhilHealth, HMOs and other private health insurance institutions. Most local hospitals and clinics, however, subsist on their budget allocations from their local governments. *Barangay* health stations are largely funded from the IRA and income from licenses and permits and user fees of their local governments.

Figure 6. Financial flows in the health sector



2.3.2 Overall trends in the sources and uses of health care financing

A recent study of the Philippine National Health Accounts (Solon, Herrin and Florentino, 2017) shows some trends in health spending (measured in real terms) over the last 25 years (1991-2015):

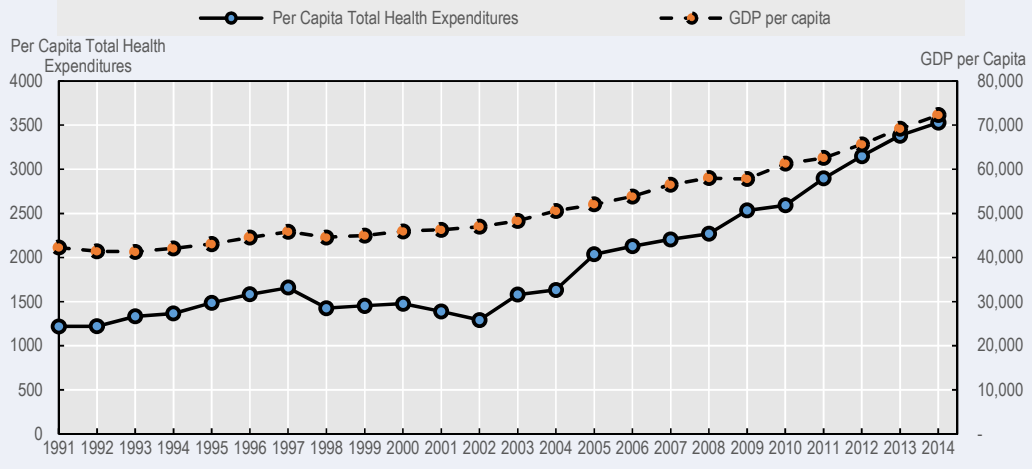
- Real per capita health expenditures financed from all sources tripled from around PHP 1 220 in 1991 to about PHP 3 530 in 2014. The growth however was not steady: it even declined in 1998-2004 but when the economy started to grow robustly in 2010-2014, real per capita health expenditures also grew rapidly. (1st figure in Box 2)
- Health expenditures per capita of the national government was flat during the period. It was below PHP 500 each year from 1991 to 2014 (2nd figure in Box 2).
- The DOH budget in 2016 was about PHP 73.8 billion, nearly three times as big as that in 2012. Over the same period, however, the DOH's annual spending was below appropriations. (More of this below and in the next section.)

- Local government health expenditures per capita grew steadily but more slowly, from PHP 166 in 1993 to PHP 444 in 2014. However, local health spending did not grow as fast as the IRA over the same period.
- Among the public sources of health financing, PhilHealth grew fastest, from PHP 73 per capita in 1991 to PHP 476 per capita in 2014. Yet, its share in the total health spending was below 10% each year from 1991 to 2012. Its share reached 10% in 2013 and 14% in 2014.
- The private health insurance, including HMOs, remain minor sources of health spending.
- Throughout the period, family out-of-pocket payments (OOPs) are the single biggest source of health spending. From just over PHP 500 per capita in 1991, family OOPs rose to twice that level in 2006. By 2014, it was nearly PHP 1 500 per person. (3rd figure in Box 2)

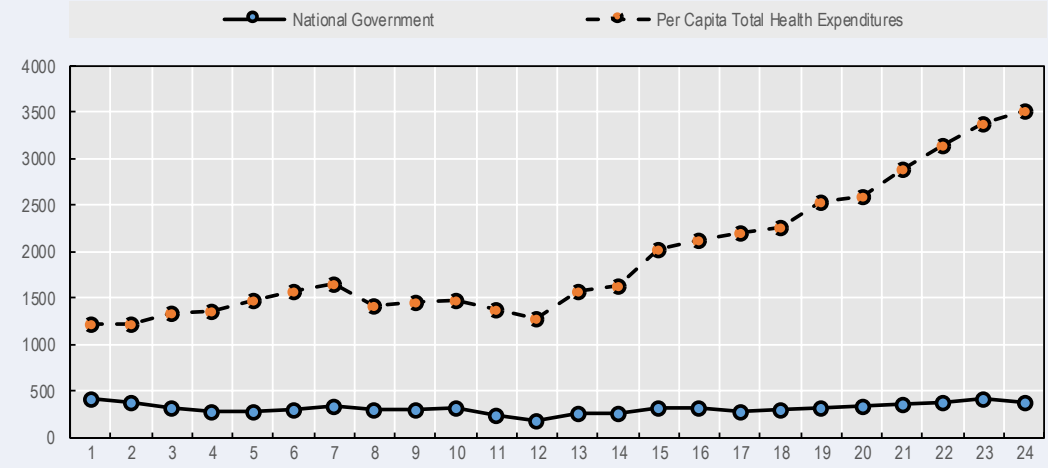
From the above findings, one can surmise that while family OOPs remain the biggest source of health spending, the public sector (especially the DOH and PhilHealth) will grow in relative significance in the coming years, especially if the economy continues to grow. Even with economic slowdown, the earmarked share of sin tax revenues should help sustain progress towards universal health coverage. However, the expanded fiscal space alone may not reverse the trend in the uses of health spending over the same period. As noted by Solon, Herrin and Florentino (2017), it is not the poor that benefits the most from public health expenditures; if anything, the poor are crowded out by the higher-income families from public subsidies for health.

Box 2. Trends in sources and uses of health care financing, 1991-2014

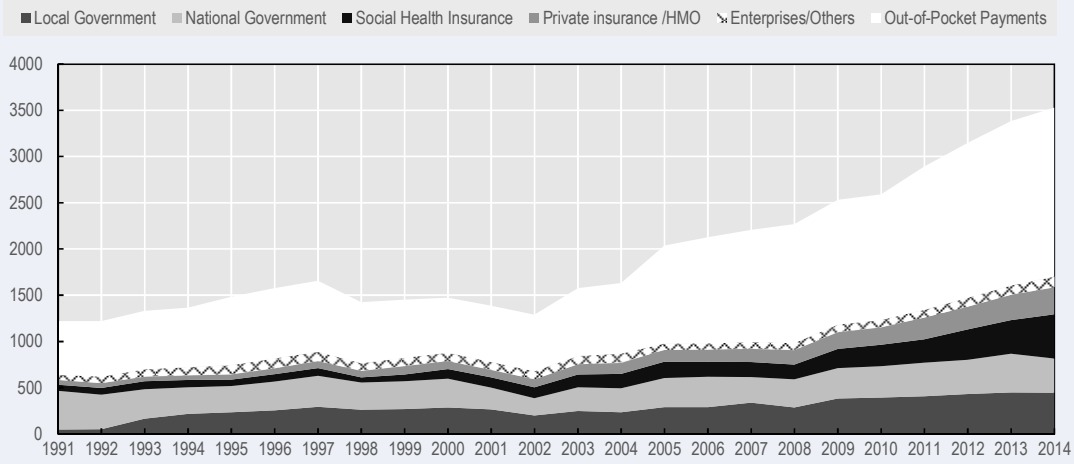
Per Capita Total Health Expenditures and GDP Per Capita, 1991-2014 (Constant 2000 Prices)



Per Capita Total Health Expenditures and Per Capita National Government Health Expenditures, 1991-2014 (Constant 2000 prices)



Per Capital Total Health Expenditures by Financing Agent, 1991-2014
(Constant 2000 Prices)

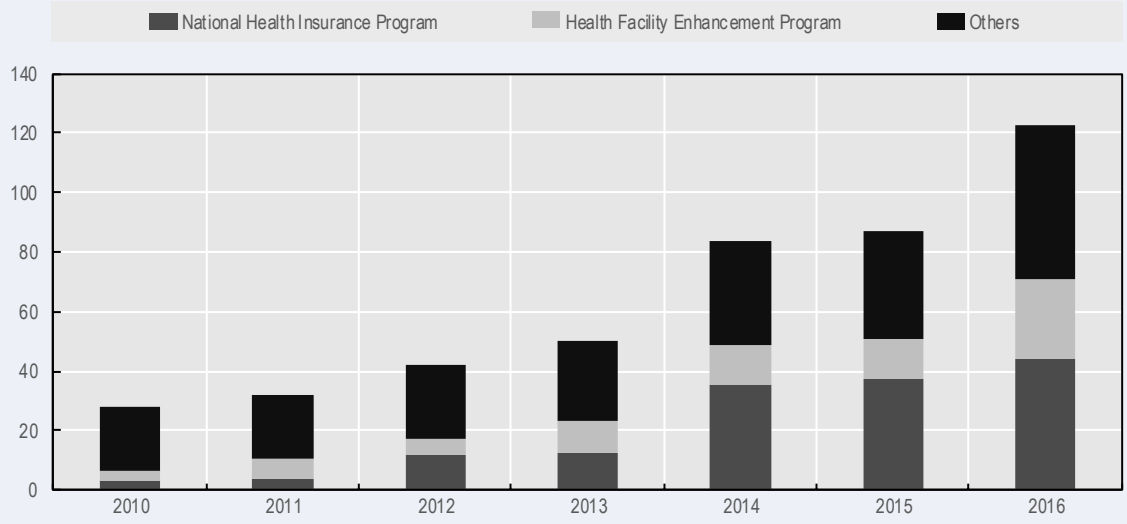


Note: Adapted from Solon et al. (2017), the figures reported here are slightly reformatted, with authors' permission.
Sources: National Statistics Coordination Board 2004, 2013, 2015; Philippine Statistics Authority 2015; Racelis et al. 2016

Box 3. National budget envelope for health to expand with Sin Tax

As mentioned in Section 1, a provision of the Sin Tax Law (RA 10351) earmarks a percentage of the incremental revenues for UHC, specifically to pay for the insurance premium of poor households in the NHTS-PR list (and CCT families), for health promotion programs, and for enhancement of local health facilities. The incremental tax revenues earmarked for health first appeared as line items in the approved DOH budget allocation. Due to this fund infusion, the DOH budget grew from PHP 24.6 billion in 2010 to PHP 50.4 billion in 2013 to PHP 122.6 billion in 2016. A huge part of the additional funds is intended for the premium payments of the poor households (see figure below).

DOH Budget Allocations, 2010-16 (in PHP billion)



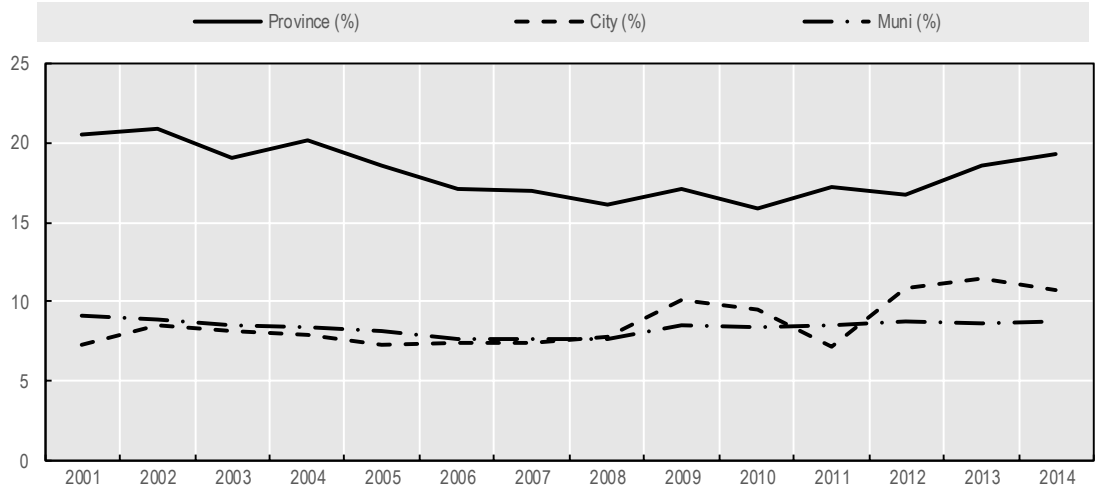
The actual revenues collected from the sin tax were higher than expected, suggesting that the price elasticity of demand for alcoholic and tobacco products may be lower than initially estimated. Thus, the national budget envelope for health may be expected to expand with the sin tax (at least until consumption of sin products decline), and this will sustain financing for health insurance coverage, facility enhancement and other health programmes. However, the government may yet reconsider its priority since the extra budget already strains the absorptive capacity of the DOH (discussed in the next section).

2.3.3. Trends in local government spending on health

During the period 2001-2014, the annual share of health (and nutrition and population services) [8] in the total expenditures of the provinces hovered between 20 and 15%; for the cities, it was between 7 and 11%; and for municipalities, it was between 11 and 12% (Figure 7). While the shares of health in the total expenditures of cities or municipalities were stable during that period, that of the provinces had a marked downswing from 2003 to 2008, before it slowly swung up in later years. The annual percentage growth in health spending during the same period was more erratic for each of the three LGU levels. Broad trends however could be discerned from the data: the period 2001-2005 is characterised by a general decline in annual percentage growth; during the period 2006-2009, there was recovery; and in 2011-2014, the three levels showed more varied patterns of patterns of

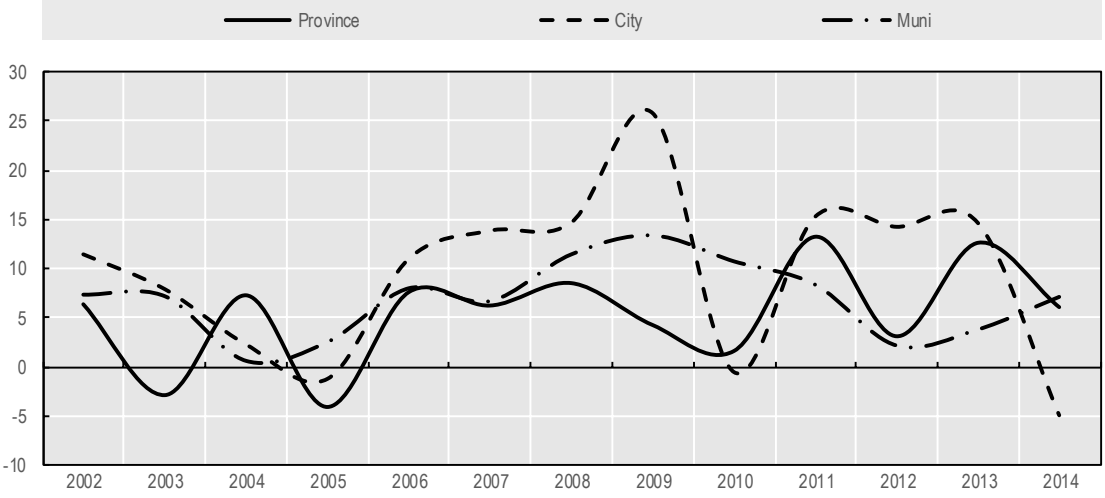
growth (Figure 8). The decline in the growth of municipal health spending may be due to the implementation of the premium subsidy extended to the NHTS-PR poor households using earmarked funds from the national government, which effectively relieved the municipal governments from their financial obligations. Another observation that can be deduced from the figure is that the growth in health spending is largely driven by growth in LGU income, since the annual share of health in total expenditures remained constant.

Figure 7. Share of health in total local government expenditures, by local government level, 2001-2014



Source: Bureau of Local Government Finance.

Figure 8. Average annual growth rate (in %) of local health spending, by local government level, 2002-2014

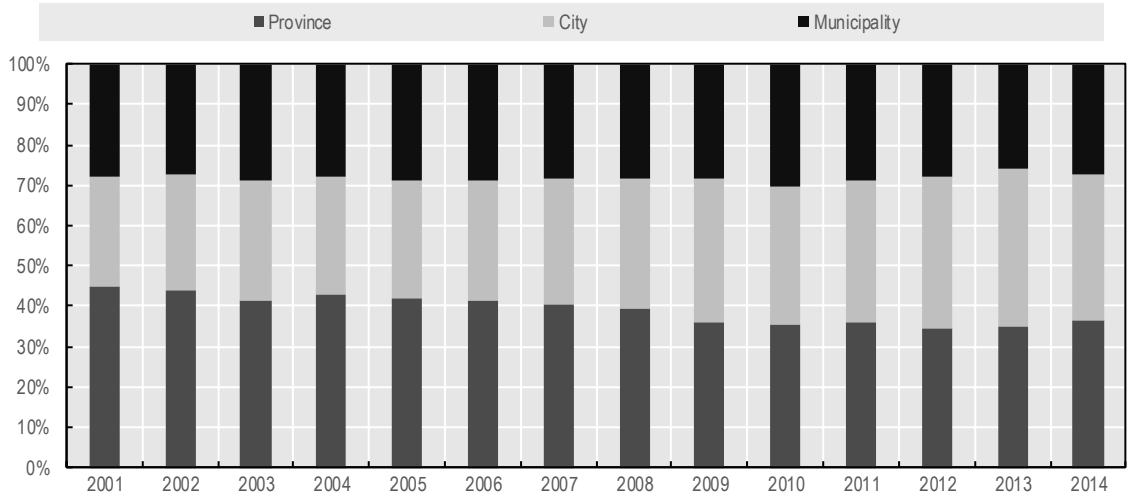


Source: Bureau of Local Government Finance.

During the period 2001-2014, the respective shares of the municipalities, cities and provinces in their combined annual spending on health, nutrition and population services were relatively stable. Municipalities accounted for a constant share of around 30% each

year. While the provinces accounted for the bulk between 2001 and 2008, its share started to fall below 40% in 2009, when the share of the cities also steadily rose to match that of the province by 2014 (Figure 9). The upward trend in the city share caused by the continuing urbanisation of the population[9] leads to greater demand for health and other services, and to more buoyant local economies and more fiscal revenues. A good example is Makati City whose high IRA and tax revenues from real property enable its government to extend generous hospitalisation and other welfare subsidy (including free movie passes) to its residents, especially to indigents and senior citizens.

Figure 9. Shares of the provinces, cities and municipalities in the total local spending on health, nutrition and population, 2001-2014



Source: Bureau of Local Government Finance.

The revenues from sin taxes also have a direct and indirect effect on local health spending. The direct effect is through the national internal revenues from which the IRA is drawn. However, the effects of the increased IRA on local health spending will depend on two parameters. The first parameter is the local government's marginal propensity to spend on health services. The other parameter is the effect of IRA on local revenue mobilisation, which is found to be negative (Manasan and Chatterjee, 2003).[10] By another law, tobacco-growing provinces in the Ilocos Region also get an increased share in the internal revenue collections, apart from their IRA. The indirect effect is through the DOH allocations for local facility enhancements. Plausibly, the direct and indirect effects of sin tax will vary across LGU levels.

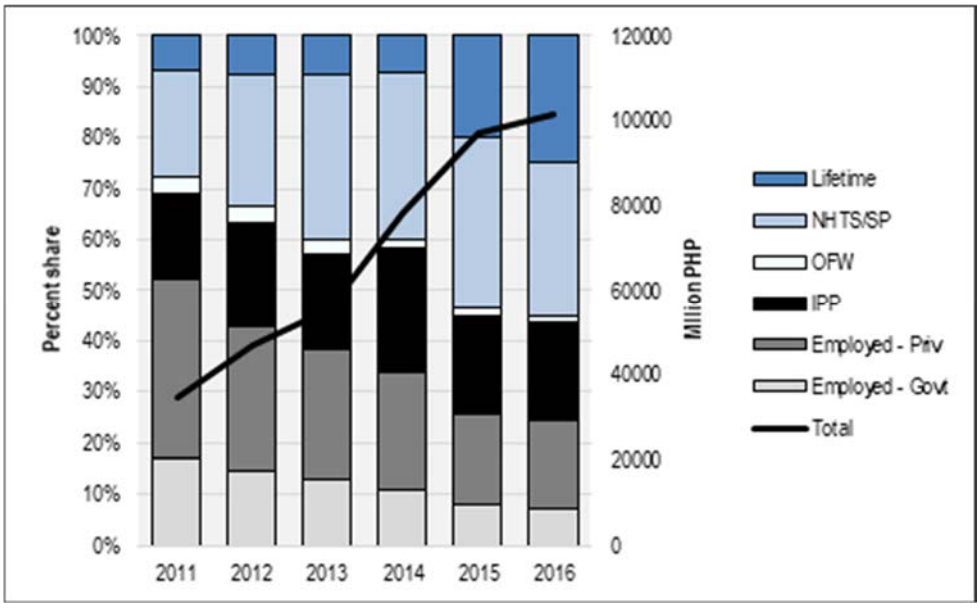
2.3.4. PhilHealth benefit spending

An important indicator of the sustainability of health financing in the Philippines is the distribution of PhilHealth payments of benefit to its different membership programmes. As a social health insurance programme, PhilHealth's premium schedule is structured such that the high-income members cross-subsidise the low-income members and its membership coverage is extended to all Filipinos to widen risk pool. PhilHealth total benefit payments grew three-fold in the last six years, from around PHP 34.9 billion in 2011 to about PHP 101.8 billion in 2016. The combined share of those who work in the formal sector (government and private companies) who also pay higher annual premium, dropped from around 50% percent in 2011 to about 25% in 2016. Over the same period,

the combined share of those enrolled under the NHTS/Sponsored programme and Lifetime Members programme spiralled from less than 30% in 2011 to about 55% in 2016. In the last two years, the share of the Lifetime Members also grew fastest. (Figure 10)

While these trends indicate a progressive distribution of benefit payments, they also raise concern about the long-term financial viability of the programme. This is because the Lifetime Members are insured for free and for life, while the poor are insured for a fixed amount (i.e., not pegged to salary or family size).

Figure 10. Shares in total PhilHealth benefit payments, by membership program, 2011-2016



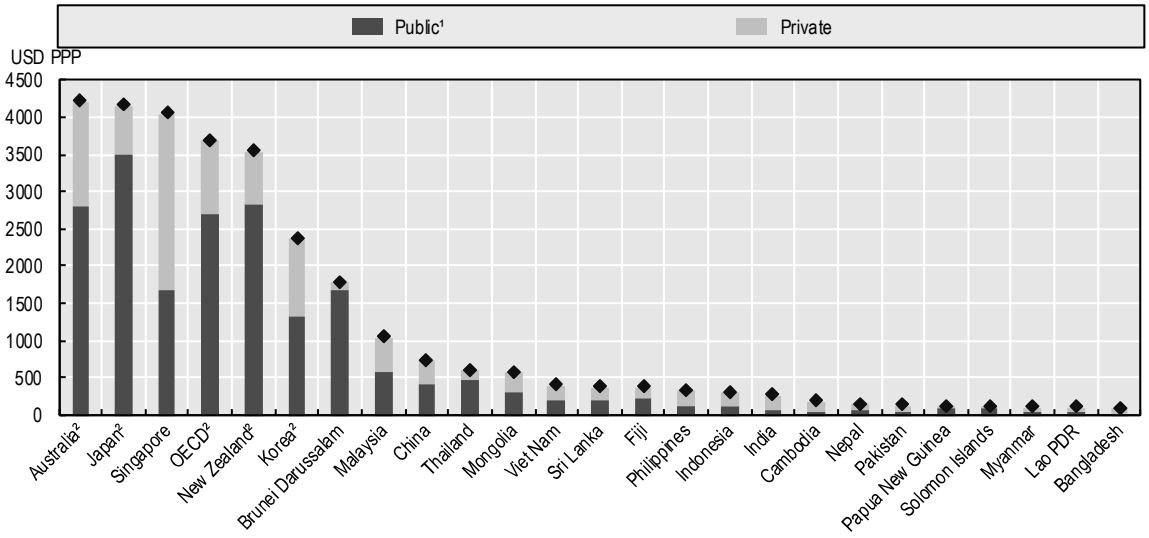
Source: Philippine Health Insurance Corporation (Stats and Charts, various years)

2.4. An international perspective: how does Philippines compare with other countries in terms of the level and composition of health spending?

2.4.1. Total health spending in the Philippines is relatively low compared with its level of national income, and accounts for a smaller share of GDP than the OECD average

In 2014, the Philippines spent an average of USD 349 per capita on health (in purchasing power parity terms). This amounts to less than a tenth of the OECD average of USD 3 683. This is similar to Indonesia but much lower than in many countries in the region, such as China, Malaysia and Thailand (Figure 11).

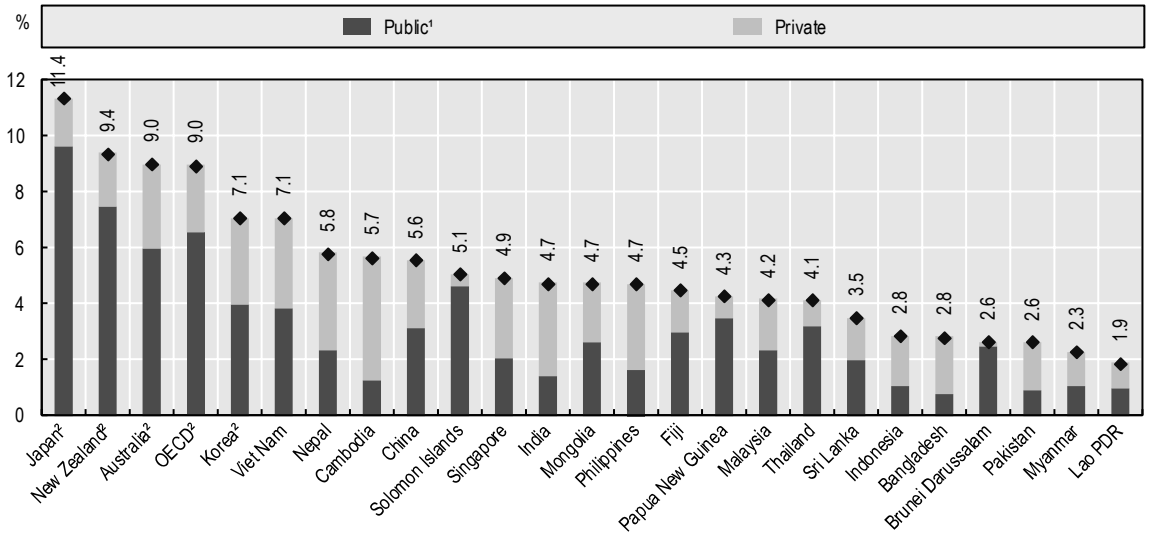
Figure 11. Health expenditure per capita, 2014



Notes: [1]For OECD countries, "Public" refers to government/compulsory insurance schemes and therefore includes compulsory private insurance; [2]Data refer to current health expenditure which excludes investments.
Source: OECD Health Statistics 2016; WHO, Global Health Expenditure Database.

These per capita comparisons suggest that total health spending in the Philippines is low in relation to its level of national income, as well as in absolute terms. Indeed, when measured as a percentage of GDP, the Philippines devotes a share of GDP to health (4.7%) that is much lower than the OECD average (9.0%) (Figure 12).

Figure 12. Health expenditure as a share of GDP, 2014



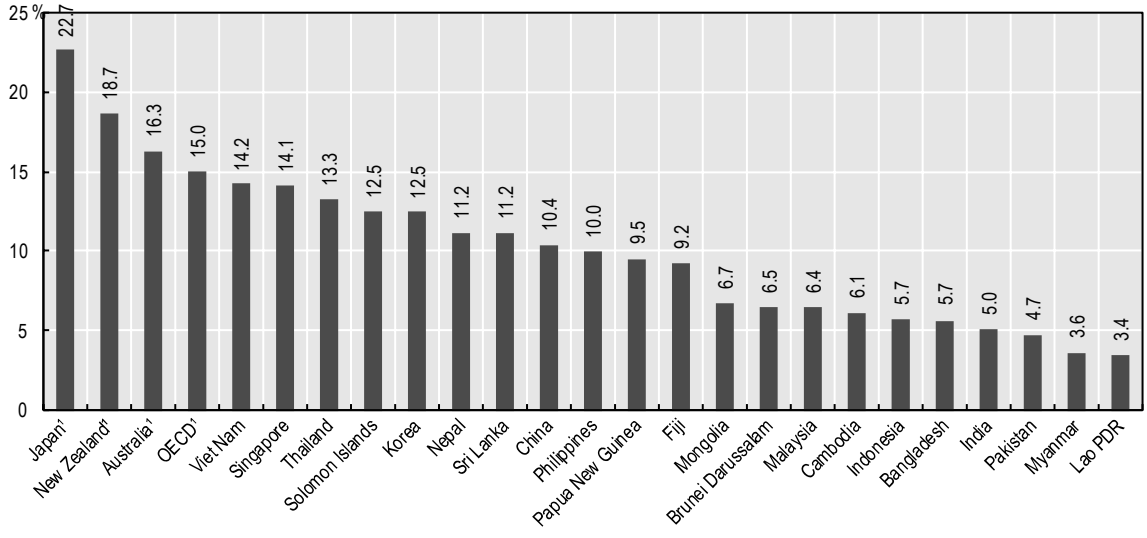
Notes: [1]For OECD countries, "Public" refers to government/compulsory insurance schemes and therefore includes compulsory private insurance; [2]Data refer to current health expenditure which excludes investments.
Source: OECD Health Statistics 2016; WHO, Global Health Expenditure Database.

2.4.2 Though the Philippines allocates a similar share of its overall budget to health compared with its neighbouring countries, it is one of the countries that has the highest levels of private spending

The relative priority given to health in the Philippines budget (10% of all government expenditure) is lower than the OECD average (15.0%) but closer to a mid-point amongst neighbouring countries in Asia (Figure 13).

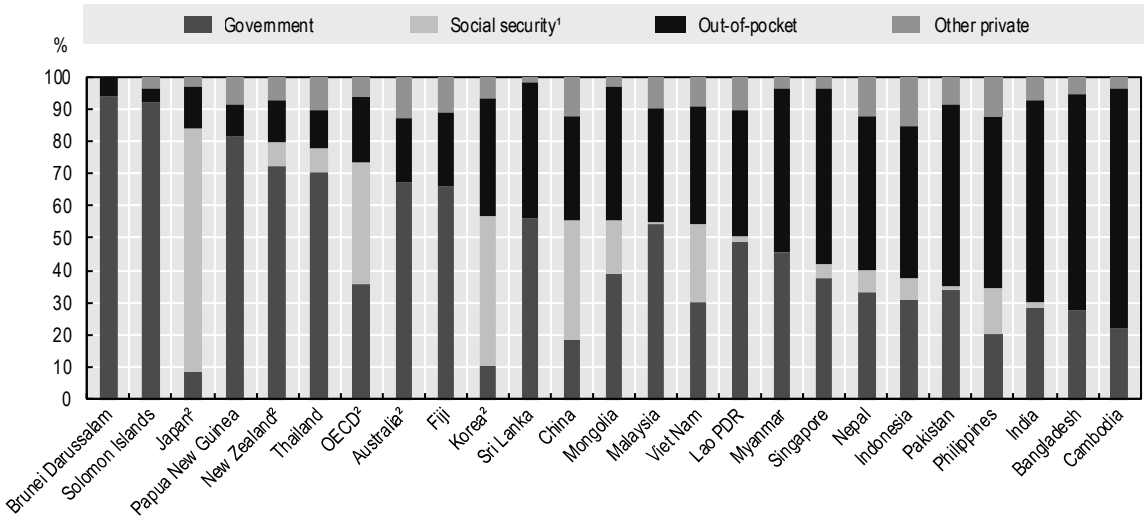
At the same time, about 66% of the Philippines spending on health is financed from private sources. This is a much higher proportion than in most OECD countries. The share of private expenditure is also high compared with other countries in the region (Figure 14). A further disaggregation shows that most of this private health expenditure comes in the form of out-of-pocket payments (OOP).

Figure 13. Public expenditure on health as a share of general government expenditure, 2014



Notes: For OECD countries, public expenditure on health refers to government/compulsory insurance schemes and therefore includes compulsory private insurance; [1]Data refer to current health expenditure which excludes investments.
Source: OECD Health Statistics 2016; WHO, Global Health Expenditure Database; IMF, World Economic Outlook Database.

Figure 14. Health expenditure by type of financing, 2014



Notes: [1]For OECD countries, "Social security" refers to compulsory insurance schemes and therefore includes compulsory private insurance; [2]Data refer to current health expenditure which excludes investments.
Source: OECD Health Statistics 2016; WHO, Global Health Expenditure Database.

3. Public financial management and the budgeting process for health

3.1. Budget planning and formulation

3.1.1. Budget formulation for health at the national level

The government has introduced a package of Public Financial Management Reforms, strengthening the link between the national development plans and budget formulation process for health

While there has always been a close link between the DOH's national objectives for health and the national development plans, the link between the two and the national budget formulation process for health became stronger in the last ten years. The link between the DOH's health objectives and the various Medium Term Philippine Development Plans (MTPDP) developed under succeeding Philippine Presidents since 1998 can be discerned from Table 2. MTPDP is an articulation of the development agenda of the incumbent president, where each chapter is developed by a technical working group comprising representatives from various agencies, the private sector, academia and civil society organizations, fortified through numerous public consultations, and then finally reviewed by the Cabinet. The steward and secretariat of the planning process is the National Economic and Development Authority (NEDA), headed by NEDA Director General, who is concurrently also the Secretary of Socioeconomic Planning.

A recent innovation in the MTPDP process is the development of a companion results matrix that identifies the key outcome indicators for each of the sectors, the baseline and the target values of the indicators. The planning horizon is usually six years, coinciding with the president's term of office. To stay relevant, MTPDP targets and thrusts are updated in mid-term (i.e., after 3 years).

In the Philippine Development Plan 2011-2016, health is clustered together with education and nutrition under Social Development. The desired outcome for the subsector,

comprising health and nutrition, is "improved access to quality health and nutrition services". In the accompanying results matrix, 8 outcome indicators are specified: 3 are on maternal and child health, 2 on nutrition, 1 on reproductive health, and the last 2 on health insurance coverage and enrolment rate. In the mid-term update, the sub-sector outcome is the same. However, the list of outcome indicators is expanded to include 2 more on maternal and child health, 2 new indicators about access to safe water and sanitary toilet, and 1 each for TB (increase case detection rate), HIV (decrease in prevalence), and malaria (reduction in morbidity).

The same orientation towards measurable results in development planning is evident in recent national budget formulation processes following the introduction of several public financial management reforms (Table 2). With the adoption of the Organizational Performance Indicators Framework (OPIF) and Medium-Term Expenditure Framework (MTEF), national government agencies are obligated to specify the main final outputs (MFOs) that will be attained through their programmes, projects and activities funded out of their budgets. Under the Performance-Informed Budgeting (PIB) approach, introduced in 2015, the MFOs are then linked to sub-sector or sector outcomes and finally to the broader social outcomes (like reduction in poverty). The downside to this of course is that it is not known how much exactly each MFO (or agency) contributes towards the attainment of sector-wide outcomes. This knowledge gap can be addressed by undertaking studies to estimate the sensitivity of the sector-wide outcomes to the MFOs and the programmes or projects of the concerned agencies, and then validate the estimates through usual MTPDP consultations with various stakeholders.

The introduction of a Medium-Term Expenditure Framework has helped to improve planning and ensure programme continuity in the public sector; however, the health sector has not succeeded to fully implement this reform.

To attain the desired sub-sector or sector-wide outcomes often requires a sustained effort and financing. Hence, through the MTEF agencies are encouraged to plan their budgets on a rolling 3-year horizon. The advantage of the MTEF is it allows them to roll-over budgets for on-going programmes without the usual annual approval by Congress so long as performance targets are met. Both the MTEF and OPIF are enforced by the Department of Budget and Management (DBM) as part of its functions as the government's main manager of public finances.

The DOH first attempted to develop its own MTEF soon after the Sin Tax Law was passed. The DOH originally intended its MTEF to help plan out for the incremental tax revenues earmarked for health. Reportedly due to differences in the MTEF priorities in the Cabinet, the DOH proposal was not approved, and the development of the MTEF for health was shelved. However, the importance of the MTEF for DOH may be greater now than before because of the more-than-expected windfall from the sin tax. Where the MTEF is more needed is in the budget planning and implementation of the DOH's Health Facility Enhancement Program (HFEP), where budget underspending in recent years has been noted (more in the next section). Annex 1.B shows the MFOs of the DOH for 2017. PhilHealth also has its own MFOs and it is also primarily responsible for the 2 target outcomes on health insurance coverage and enrolment specified in the accompanying results matrix of the PDP 2011-2016.

To further achieve focus in their budget prioritisation exercises, the DBM also includes in its National Budget Call a budget ceiling for each of the national government agencies. In recent years, it also adopted a 2-Tier Budgeting Approach (2TBA), whereby on-going programmes (Tier 1) are given priorities over new programmes (Tier 2) in the next budget.

The DBM can grant a higher budget ceiling for Tier 2 projects if the requesting national government agency provides a strong justification. Requests for higher ceiling for Tier 2 programmes however go to the President for approval.

The Tier 1 budget process starts in the first quarter of each year. In January, the DBM issues a national budget call, which contains information on the procedures and deadlines, budget preparation forms to fill out, and the three-year forward estimates of the total government budget based on some assumptions of how the economy will perform in the year. After this, all agencies are asked to participate in the Budget Forum where details of the budget process and the forward estimates are taken up. In the following month, the agencies submit the actual obligations from their previous year's budget and their proposed budget for the following year. Then in March, the agencies discuss their proposals with the DBM, which afterwards determines how much to allocate for continuing and new appropriations, given the agency's performance and proposed programmes, projects and activities for the upcoming fiscal year.

The Tier 2 budget process is focused on new spending, which are decided only after the Tier 1 items are finalised and the remaining fiscal space is determined. Under the current set up, the government prioritises for Tier 2 allocations programmes that are "a) critical to the national development, b) consistent with Budget Priorities Framework, and c) delivered by agencies that demonstrated capacity to implement budget effectively." In March, the DBM submits to the Cabinet a Budget Priorities Framework that specifies the remaining fiscal space and updated fiscal forecasts. Then the agencies are invited to submit online their Tier 2 proposals. Technical budget hearings for Tier 2 proposals are conducted in April and May. Once the Tier 2 budget process in completed, the DBM then prepares the National Expenditure Program (or the president's budget) and then submits it to Congress for approval.

According to the DBM, the 2TBA process also encompasses capital budgeting. Continuing or new capital projects follow the same process as the other projects included in the Tier 1 or Tier 2 budgets. Forward estimates for capital projects are also included. These estimates are adjusted for continuing capital projects under Tier 1 if approved by the Investment Coordination Committee of the NEDA. In the case of DOH, capital budgeting, especially for both retained and devolved hospitals and other health facilities, has become crucial in recent years because of the revenue windfall from the sin taxes.

As the 2TBA process further instils timely performance and budget prioritisation in government, the DOH, as will be discussed in the next section, appears to choke on its massive capital budget infusion in recent years.

Table 2. Major Public Financial Management reforms, 2007-2018

Year started	Name and description
2007	**Medium Term Expenditure Framework (MTEF)** This determines the government's budgeting approach for the next three years (three-year rolling budgeting) given a resource ceiling. This aims to: • Link policy, planning, & budgeting over the medium term; • Use top-down resource allocation and bottom-up estimation of medium term costs for existing policies • Roll-over of ongoing programmes The MTEF relies heavily on forward estimates (FE) which are estimates of the future costs of on-going policies, programmes and projects of the government for the next three years.
2007	**Organizational Performance Indicators Framework (OPIF)** This represents a movement towards a results-based management approach in budgeting, with a focus on fiscal discipline, allocative efficiency, and operational efficiency. The OPIF centres on two things: • Accountability framework, which identifies of Major Final Output (MFOs) and associated performance indicators; & • Performance framework, which produces information that can be used for budget preparation, monitoring budget execution, improving agency organisation under the Rationalization Program and for designing a performance based compensation system
2011	**Zero-based Budgeting (ZBB)** Under ZBB, existing programmes are evaluated to determine the continued relevance of the programme. Results will be used to determine whether to continue, revamp, or cancel the programme. Programmes are analysed on the following criteria: • Significant leakages and inefficiencies based on COA Reports; • Large magnitude of funds which have been provided in recent years; • Weak performance over the past years; Critical programmes of the administration (as determined in the PDP)
2012	**Program Convergence Budgeting** This approach intensifies inter-agency collaboration in planning, budgeting, and implementation of programmes. DBM National Budget Memorandum No. 114 in 2012 sets out guidelines for building and sustaining co-operation between participating agencies in the development and implementation of priority programmes. This ensures that the key targets under the PDP and the president's social contract are incorporated in the budget.
2012	**Bottom-up Budgeting (BuB)** To increase people's participation in the budget, Bottom-up Budgeting was implemented. This works on the assumption that local officials are better situated to know their needs and requirements. Incorporating this in planning ensures that these needs are met. Hence, BuB creates a demand-driven budget planning process.
2012	**Performance-Based Bonus (PBB)** This aims to improve the incentive structure that exists for government officials. More incentives in the form productivity enhancement incentive (PEI) which depends on the amount annually set via an Executive Order, a fixed PHP 5 000 cash gifts, and 13th month pay.
2013	**Unified Accounts Code Structure (UACS)** This is a government-wide harmonised classification system for financial transactions, institutionalised under the Joint Circular No. 2013-1 of the Commission on Audit (COA), Department of Finance (DOF), and DBM. Aside from the aforementioned agencies, the Bureau of Treasury (BTr) also makes use of the UACS to enable orderly and transparent budgeting, accounting, and auditing of each budget item.
2013	**GAA as Release Document (GAARD)** This approach, together with the creation of Full-Time Delivery Units (FDUs) aims to facilitate the swift and efficient implementation of the expenditure programme. Here, disaggregated budget items in the GAA are considered released, enabling agencies to enter into contracts, complete the procurement process and kick-start the implementation of programmes/projects on the very first working day of the fiscal year.
2015	**Performance Informed Budgeting (PIB)** The PIB strengthens the move towards results based budgeting. Instead of line items, the budget process is made more understandable by linking the budget with outcomes. Performance information is integrated in National Budget documents to inform key stakeholders what different agencies are committing for in exchange for the budget

Year started	Name and description
2016	**Two-tier Budgeting Approach (2TBA)** The 2TBA integrates previous reforms into a new budget process consisting of three stages: budget preparation, Tier 1 and Tier 2. Under budget preparation and planning, each agency ensures that their ongoing and new budget proposals are consistent with national goals set in the PDP/ MTPDP through the creation of strategic plans. Tier 1 refers to the approval stage of the cycle for existing expenditure items, with the goal of having an approved budget for the next fiscal year. Tier 2 focuses on identifying new policy proposals, funded from the residual 'fiscal space' after Tier 1.
2018	**Use of Program Expenditure Classification (PREXC)** PREXC is a refinement of performance-informed budgeting. Agency budgets are restructured to align all activities and projects under programmes, with performance indicators (outputs and outcomes) defined for every programme.

Sources: Department of Budget Management [2011] *Towards results based budgeting* (slide presentation). devplan.neda.gov.ph/m&e-network/resources/2011/Session1/2-DBM.ppt; Department of Budget Management [2012] *OPIF Reference Guide: Organizational Performance Indicator Framework*.;Manila: Department of Budget Management. Department of Budget Management [2016] National Budget Memorandum No. 123. www.dbm.gov.ph/?page_id=11886.Department of Budget Management [2016] National Budget Memorandum No. 125. www.dbm.gov.ph/wp-content/uploads/Executive%20Summary/2016/C4.%20Linking%20Budgeting%20Results%20updated.pdf Philippines [2003] The Government Procurement Reform Act (RA 9184). www.officialgazette.gov.ph/images/uploads/20160826-IRR-RA-9184-procurement-reform.pdf Philippines [2015] *Ano ang Performance-Based Bonus?* www.officialgazette.gov.ph/ano-ang-performance-based-bonus/ Philippines [2016] The 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184, otherwise known as the Government Procurement Reform Act (RA 9184). www.lawphil.net/statutes/repacts/ra2003/ra_9184_2003.html

Table 3. Major Public Financial Management actors in the health sector

Agency	Tasks and responsibilities (related to PFM)
Congress	As the legislative arm, the Congress is responsible for establishing the legal framework for public financial management (PFM). This is comprised of a collection of laws, executive decrees, and orders associated with PFM. To rationalise this, as well as to update the current legal framework for the reforms that are being implemented, the Philippine Public Financial Accountability Act is currently pending in Congress.
Department of Budget and Management	The DBM manages budgeting and procurement matters and is one of the oversight agencies in PFM. Specifically, it issues memoranda, circulars, and guidelines associated with the preparation of the National Budget. The move towards a more results based budgeting aims to improve DBM's co-ordination with other oversight agencies. As such, the DBM is part of the PFM committee, along with COA, DOF, and Bureau of Treasury.
Department of Finance	The DOF focus focuses on sufficiency, collection efficiency, and equity of tax collection. It works with the DBM to finance government expenditures and is one of the major actors in the PFM committee. As of the moment, reforms in the tax structure of the Philippines are pending in Congress. These reforms seek to increase collections, rationalise incentives, and reduce the inequities of the current system.
Bureau of Treasury	The Bureau of Treasury works together with the DBM to improve the information management system which will guide budget execution and promote accountability. Under the PFM, it is the oversight committee for the Budget Treasury and Management System (BTMS), which will replace existing information systems with a more integrated one. Moreover, it is also one of the major actors in the PFM committee
National Economic and Development Authority	NEDA is responsible for planning and public investment programming. The goals identified in the Philippine Development Plan (PDP) developed by NEDA serves as a guide for performance informed budgeting. Specifically, the budget is translated into outputs consistent with the goals identified by NEDA. It works with the DOF and DBM in the PFM committee.
Development Budget Coordination Committee	Created on May 1970 under Executive Order No. 232, the DBCC gives recommendations to the president on 1) the level of annual expenditure and ceilings for economic and social development, national defense, general government, and debt service spending; 2) proper allocation of expenditure; & 3) amount allocated for capital outlay for various capital and infrastructure projects. It is comprised of the DBM, DOF, NEDA, BSP, and Office of the President.

Agency	Tasks and responsibilities (related to PFM)
Department of Health	The DOH works with the DBM in identifying the proper allocation of resources to achieve the health-related goals identified in the PDP. It uses the PDP to guide its expenditure items, which is translated into Major Final Outputs (MFOs) which can be used to assess the ability of DOH to commit to the items it had proposed in the budget.
Department of the Interior and Local Government	The DILG works with the DBM in implementing PFM at the local level. DILG-DBM Joint Memorandum Circular 2, s. 2016 mandates the DILG to ensure that local governments are compliant with the PFM standards set by the DBM. In addition, the DILG is a key informant in drafting the PFM Assessment Tool for LGUs.
Local Government Units	The Local Government Code of 1991 transfers taxing and spending powers from the national government to local governments. As a result, some services are provided and financed at the local level, and this is more binding in the health sector, whose functions were devolved in 1993. Thus, LGUs are part of PFM. Currently, the DBM, together with the DILG, are in the process of improving local capacity to ensure that LGUs adhere to PFM guidelines.
Commission on Audit	Also a member of the PFM committee, the COA is mandated to ensure accountability via its auditing powers. It is one of the main proponents of the UACS and the Revised Chart of Accounts (RCA) both of which tries to improve the accountability and transparency of financial reports.
Philippine Health Insurance Corporation	The PHIC works with the DOH to attain the health sector goals identified by NEDA. Its main thrust is in health care financing, to address the high levels of out-of-pocket spending that characterizes the Philippine health system. As such, it adheres to the PFM guidelines – it identifies targets consistent with the health goals for the year and its performance is evaluated based on the targets it has identified.

Sources: World Bank [2011] Philippines: Public Expenditure Review. Manila: The World Bank; Asian Development Bank [nd] Public Financial Management Assessment in the Philippines, www.adb.org/sites/default/files/linked-documents/48458-001-sd-02.pdf; Department of Budget Management [2016] The Proposed Philippines Public Financial Accountability Act www.dbm.gov.ph/wp-content/uploads/Executive%20Summary/2016/The%20Proposed%20Philippine%20Public%20Financial%20Accountability%20Act%20(1).pdf; Department of Budget Management [nd] About the DBCC. www.dbm.gov.ph/?page_id=8959.

3.1.2. Local budget formulation process for health

The local budget formulation process for health links weakly with the health national objectives and priorities.

In contrast to the national-level budget formulation process for health, the local-level process links the local health budget only weakly with either the DOH's national health objectives or with the strategic plans and targets in the MTPDP. Recent attempts to strengthen the link have encountered several snags.

Under decentralisation, LGUs have fiscal autonomy. This means that they can generate and use their own resources to pursue their programmes, projects or activities, subject only to the laws of the land. So, in issuing the Local Budget Call, the DBM can only strongly advise that LGUs should consider prioritising the President's development agenda in their own development plans. When they formulate their budgets, LGUs are already advised of their likely IRA for the coming fiscal year. The local treasury also prepares statements of receipts and expenditures for the previous year, for the first quarters of the following year, and projected incomes for the rest of the current year and the following year. The different units (including the local health office) then propose an operating budget for the next fiscal year. In preparing the health budget, the local government is mandated to convene the local health board to get inputs. Chaired by the governor or mayor, the local health board comprises local health officials, members of the local council, representative of private health providers and NGOs, and a DOH representative. With these various inputs and the annual investment plan, the local budget is then prepared and submitted to the local council for deliberation and approval.[11]

Note, however, that it is not known how many LGUs currently have functional local health boards. Also, when local health officials propose their unit's budget, they are not usually provided budget ceilings. Thus, they tend to be conservative in their programmes and projects. Often local health budget proposals are largely a rehash of past budgets. When an extra fiscal space exists usually only those new health initiatives proposed or supported by the governors or mayors are funded. However, for most LGUs the fiscal space is limited since they are heavily dependent on the IRA, whose uses are also subject to some restrictions (Box 4).

Box 4. Restrictions on the uses of LGU funds

A) Under the Local Government Code of 1991

1. Cap on personal services (PS). 1st – 3rd class LGUs cannot spend more than 45% of their annual total appropriations on PS. 4th – 5th class LGUs cannot spend more than 55% of their annual total appropriations on PS.
2. 20% of the internal revenue allotment for development projects.
3. 5% of the estimated revenues from regular sources for calamity fund.
4. Appropriation for debt servicing shall not exceed 20% of the regular income.

B) Under the Women in Development and Nation Building Act (Republic Act 7192) of 1992 and Section 27 of the 1995 GAA (that was adopted in every subsequent GAAs) now known as the GAD Budget Policy

1. 5% of appropriations should be set aside for projects designed to address gender issues.

National government agencies can influence local budget priorities through procedural mechanisms. By law, each LGU should constitute and then convene its own local development council to develop a 3-year local development plan. The local development plan of a *barangay* is then reviewed by the municipal government or city government to where it belongs; that of the component city or municipality by their provincial government; and that of the province or of the highly urbanised cities or independent component cities by the DBM. From their local development plans, LGUs then derive their respective annual investment plans (AIP). They then send copies of the local development plans and AIPs to the Bureau of Local Government Supervision of the Department of the Interior and Local Government.

The local development plans of the LGUs in a region and the development plans of the national government agencies for the region are then reviewed, prioritised, matched and aligned during the meetings of the Regional Development Council (RDC). The RDC is chaired by one of the provincial governors or city/municipal mayors and the secretariat is the NEDA. The other members of the RDC include all key local government officials in the region, regional officials of the national government agencies, and other stakeholders, including those in the private sector and civil society organisations. Since the RDC has multi-sector participants, its agenda is necessarily broad. Despite the RDC-mediated development plans, the priorities set there in are not necessarily the ones funded by the national government agencies. The oft-cited reason for the mismatch is that the NGAs prioritise sector-wide development while RDCs focus on area-wide development.

The DOH has implemented tools to influence, co-ordinate and manage the spending priorities of the local governments; however these mechanisms are not well integrated with the local budget process.

To address purely health sector concerns, the DOH since the mid-2000s has instituted a process called the Local Investment Planning for Health (LIPH). The LIPH is a province-wide planning exercise that identifies the priority investments in local health systems over three years, the sources of funds for the proposed investments, and the counterpart funds of the local governments involved in the planning. The Provincial Health Teams of the DOH participate in and facilitate these exercises. Through the planning exercises the DOH introduces and elicits logistical support and, sometime, fund commitments from LGUs for its own health agenda in the province.

As a counterpart, the DOH commits both cash and in-kind transfers. The cash transfer consists of a fixed tranche and a variable tranche. The fixed tranche of PHP 1.5 million is transferred upfront to the provincial government who then hold it in trust for the conduct of the activities listed in the LIPH. The variable tranche is an amount that is based on the LGU performance as measured by the DOH using its LGU Scorecard, a monitoring tool. The in-kind transfers comprise the drugs and medicine for the vertical programmes and for emergency situations, and the enhanced or new health facility funded under the HFEP. However, since no estimate is usually provided for the size of the variable tranche or the volume of drugs and medicine to be delivered, or when exactly these DOH transfers can be expected, these extra resources for health are not factored in during the local budget preparation. Inadequate and irregular delivery of drugs and medicine from the DOH has led some LGUs to improperly ration available supply or procure their own drugs.

The LIPH is just one of several mechanisms that DOH introduced to influence, co-ordinate or manage the spending priorities of the local governments. Prior to the LIPH, it organised Inter-Local Health Zones to revive the hospital referral system in a district, and the Comprehensive Health Care Agreement to provide matching grants for local and national health programmes in the province.

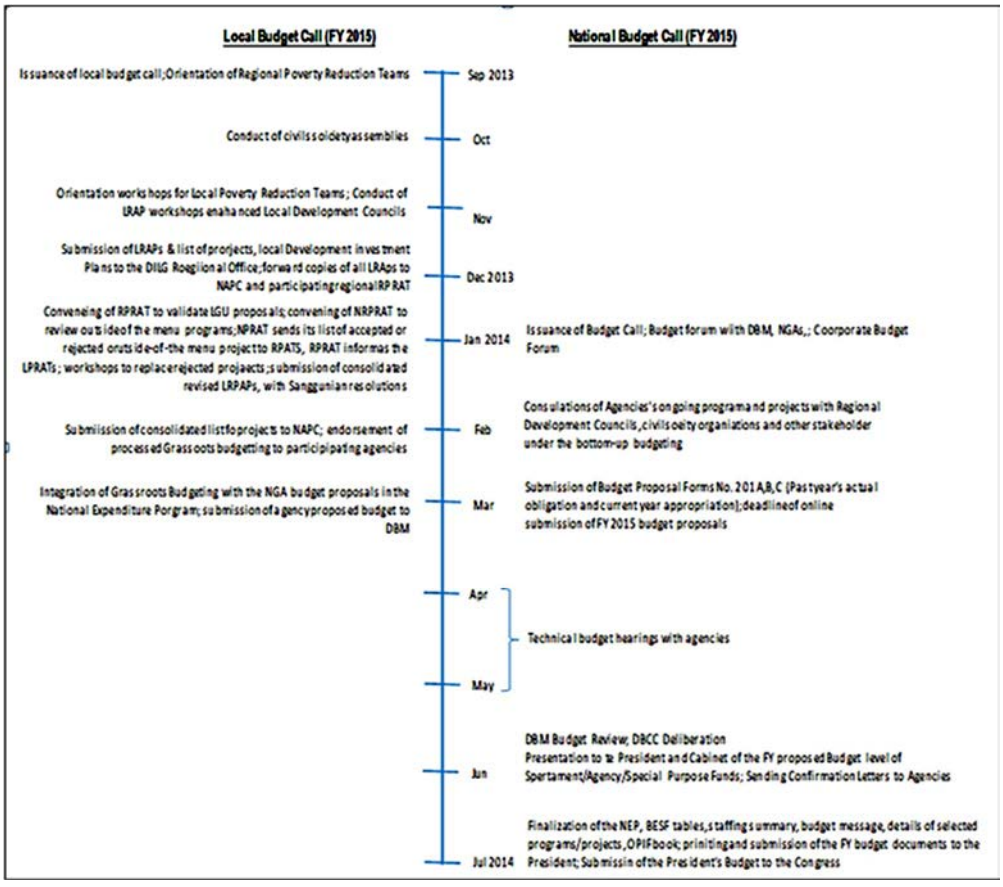
Of course, the DOH is not the only national government agency to realise the importance of aligning national and local budget priorities. In 2012, the DBM-DILG and NAPC jointly introduced the Bottom-up Budgeting (BuB) Approach to align national government budgets with local needs by encouraging people's participation in the process. For this to succeed, the timings of the local and national budget formulation processes should be set right. How this was done for the 2015 budget is shown in Figure 15.

In September in each year, the LGUs start to prepare their budget for the following year. The local budget call issued by the mayor or governor specifies the objectives, strategies as well as the programmes, projects and activities (PPAs) to be prioritised. Simultaneously at the national level, the Regional Poverty Reduction Action Teams (RPRATs) are given orientations on how they should assist the local development councils in developing their own budget plans. Then in October, the concerned department heads draft their unit's budget proposals, after consultation with local consultative bodies if necessary, and then submits them to the local budget officer for consolidation. Budget hearings are then conducted to deliberate on the revenue sources, PPAs, cost estimates and expected outputs. The local planning and development council co-ordinates, finalises the budget proposal and then submits it to the local council (*sanggunian*) for review and approval for those spending items to be funded by LGUs.

Then in the following November and December, the Local Poverty Reduction Action Teams (LPRATs) train local development councils in a series of workshops. The local development councils will lead in the crafting of Local Poverty Reduction Action Plans (LPRAPs) together with a list of priority projects (known as Local Development Investment Plans) to be submitted to the regional office of the Department of Interior and Local Government. Then in January to March the following year, and coincident with the DMB's initiation of the budget process for the national government, the RPRATs review the LPRAPs/LDIPs submitted to the DILG. The LGUs with rejected proposals are then asked to revise and resubmit to the LPRAPs and then to their local *sanggunian* for approval. All the local plans approved by the RPRATs are sent to the National Anti-Poverty Commission (NAPC) for endorsement to the concerned agencies for support through their own budgets and priorities. Ideally, the LGU budget proposal and the LPRAPs/LDIPs should consistent in terms of priorities, complementary in terms of budget sources, and in sync when implemented (DBM, 2016a).

While the effectiveness of the new budget process has not been evaluated yet, it is not hard to imagine that given the tight deadlines, and the number of actors involved, there would be delays in the submission, review and revision of the project proposals. The same problems are raised by the DOH's Centers for Health Development in charge of facilitating the completion of LIPH in their regions.

Figure 15. The timing and activities of the local budget call and national budget call for FY 2015



Source: DBM (Local Budget Call (FY 2015), National Budget Call (FY 2015).

3.2. Budget execution in the health sector

3.2.1. Trends in health budget utilisation

Thanks to the sin tax, the Philippines expects ample resources available for health spending in the following years; however, the government is facing issues to spend these resources and translate them into more access and better health care services.

With a massive five-fold increase in its budget between 2011 and 2016, and with much of that increase occurring in the last three years, the DOH has managed to spend much of it, but still faces some challenges to use the rest. Recall that incremental budget from the sin tax revenues are earmarked for the insurance coverage of the poor, for health promotion programmes and health facility enhancement programmes. Thanks to the NHTS-PR list of households from the Department of Social Welfare of Development, the DOH and PhilHealth were able to disburse the part intended for the insurance coverage of the families in the NHTS-PR list or are CCT beneficiaries. Because of the list the DOH and PhilHealth did not have to go through a potentially tedious and politically contentious process of identifying the eligible indigent families. Currently, the PhilHealth only has to determine from the list the eligible principal members and their dependents to be extended insurance coverage,[12] and then "bill" the DBM for the insurance premium. Since those in the NHTS-PR list will be considered poor until a new list is drawn up, this helps ensure the equitable and timely disbursement of major portion of the earmarked tax revenues for health. The real choke point for the DOH, however, is in using the funds for the Health Facility Enhancement Program (HFEP).

Figure 16 and Figure 17 show the extent and sources of DOH underspending since 2011, when it started to get massive fund infusion, and up to 2016. The "obligation rate, total" measures proportion of the total budget allocation for the year, including unused balances in the previous year that are automatically carried over to current year that has been obligated (e.g., contractual commitment to pay a supplier). It's different from "obligation rate, current budget" in that this indicator refers to the proportion of only the current budget allocation that has been obligated. The "carryover rate" is the share of the unused balances in the previous year's budget carried over to the current year's budget.

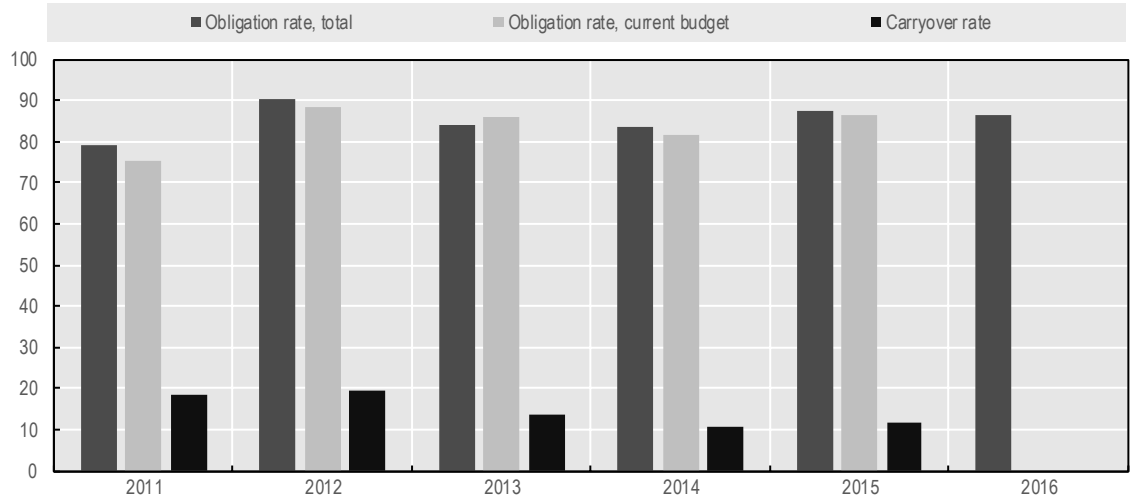
Three observations can be deduced from the graphs. First, the DOH is unable to spend all its budget allocations; it uses only around 80% on average during that period. Second, the undisbursed budget from the previous year carried over to the current year contributes to about half of unused balances by the end of the current year. Third, while the DOH used up all its allocation for personal services (PS), it underspent on maintenance, and other operating expenses (MOOE), and, more greatly, on capital outlays (CO).

Procurement of drugs and medicines and inadequate project preparation for the enhancement of local health facilities are some of the main challenges for budget execution

Based on the interviews of government officials, the main spending bottleneck in the DOH is the procurement of drugs and medicine, and the inadequate project preparation for the enhancement of local health facilities. Even under the devolution, the DOH procures drugs and medicines for the vertical programmes and distributes them to LGUs. In addition to the drugs and medicines needed for Expanded Program of Immunization (for children and infants), TB, Malaria, HIV/AIDS, the DOH now also procures drugs for hypertension and diabetes and dengue, and, were it not for the temporary restraining order issued by the

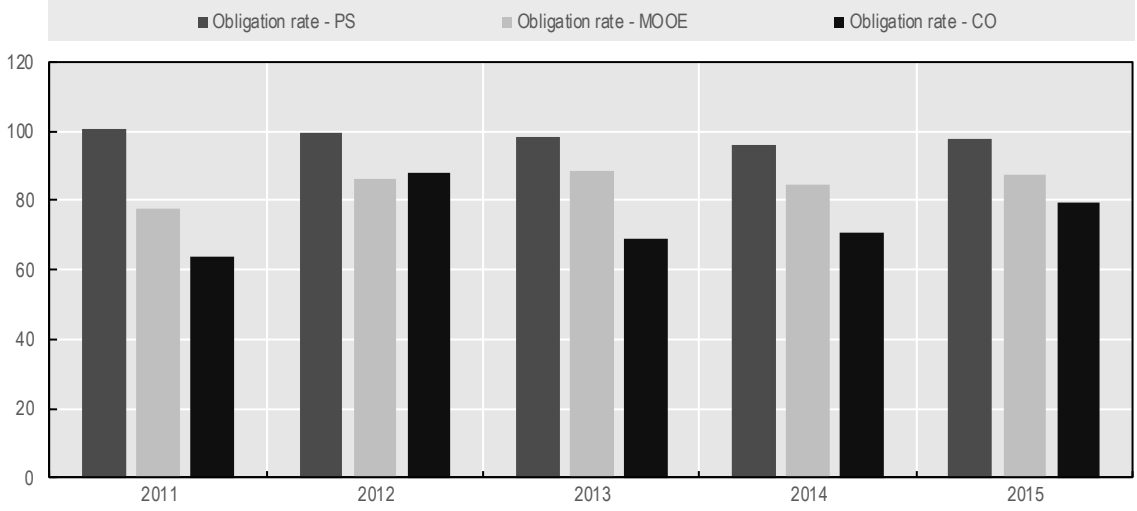
Supreme Court, also modern contraceptives.[13] To determine the volume of drugs and medical supplies to procure, the DOH uses available prevalence rates by region, and then apportion the drugs to each LGU by population share. Since DOH uses national or regional averages (or prevalence), an LGU is unlikely to get the exact amount it requires. Through its Provincial Health Teams or through the direct initiative of the local health official, the DOH gets wind of stock outs, and then arrange for additional deliveries. Besides the rudimentary planning process, weakly integrated national and local IT systems contribute to the persistent logistics problem of the DOH. Again, based on the feedback from local health officials, the deliveries could take as long as three months. Perhaps this is understandable since local prevalence data is often incomplete or poor quality and not regularly reported to the DOH. As a stop gap measure, the CHDs keep buffer stock of drugs and set aside funds for emergency purchase.

Figure 16. DOH Budget, obligation rate and carryover rate, 2011-2016



Source: Department of Budget and Management.

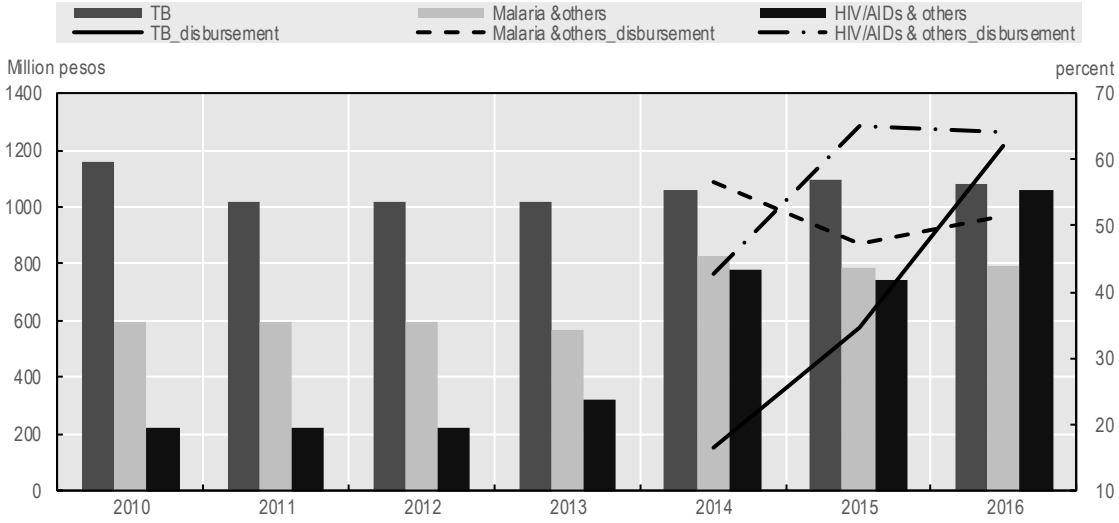
Figure 17. DOH Budget, obligation rate by expense class, 2011-2015



Source: Department of Budget and Management.

The seriousness of budget underutilisation in the DOH is further underscored in Figure 18, which shows the appropriations and disbursement rates for the TB, Malaria, HIV/AIDs and other vertical programmes. During the period 2010-16, the annual budget for the TB programme was around PHP 100 million. In the last three years, there were big increases in the annual appropriations for the Malaria and other programmes (including schistosomiasis, leprosy and filariasis) and for the HIV/AIDS and other programmes (including dengue, and food and water-borne diseases). Underscoring DOH's constrained absorptive capacity, the annual disbursements rates in 2014-16 for each of the three major vertical programs were below 70%. The TB programme registered the fastest growth in disbursement rate; while that of the Malaria and HIV/AIDS program changed relatively less.

Figure 18. DOH budget allocation and disbursement rate for TB, Malaria, HIV/AIDS and other vertical programmes, 2010-2016



Source: Department of Health.

Procurement delays across government agencies, and not only in the DOH, have been a major concern (Monsod, 2016). One reason for this are the stringent procedural requirements specified in the Government Procurement Reform Act (Republic Act No. 9184) of 2003.[14] The DOH, especially in its regional offices and hospitals, lacks personnel with the specialised procurement skills appropriate under this law. According to Solon, Herring and Florentino (2017), the inability if the DOH to use up its HFEP budget is due to "... not enough engineers and architects to design facility upgrading, and not enough Central Office Bids and Awards Committees (COBAC) could be created to bid out and award civil works contracts. Moreover, there were insufficient technical personnel available to monitor the pace of quality upgrading." To address this bottleneck, Picazo, Pantig and dela Cruz (2015) suggested that various small projects be packaged and bid out as fewer but bigger projects. With the amendments in 2016 of the implementing rules and regulations of the procurement law, delays are expected to be minimised.[15] In recent years, additional positions have been created specifically for procurement in the DOH central level and in their regional offices.

Another reason cited for the underutilisation of the HFEP funds is that the project proposals were not "mature" when included in the budget proposals. The oft-cited example is the lack

of a suitable or available lot for the facility to be constructed or enhanced. Informed about the HFEP funds - which by rule should be allocated by district or locality - local elective officials will simply request the DOH for a slice of the HFEP pie, supposedly with their assurance that the local counterpart (including the lot) will be provided. Another problem is the change in the preferred location of the facility to be funded. The requests are often made to the DOH by local elected officials, presumably for the political payoffs of securing a facility for their bailiwicks.

Given the limited resources at the local level, under execution is less frequent at the local level

In contrast to the DOH, most LGUs are unlikely to underutilise their budget. There are two reasons for this. The first reason is that most LGUs are heavily dependent on their IRA. The second reason is that the only real disposable or "free" part of the IRA is small. By law, LGUs must set aside 20% of their IRA on development projects. Since most of them hardly collect any taxes or fees from local sources, the available IRA is further reduced by the requirement that LGU must set aside 5% of their incomes on Gender and Development programme, and another 5% of their incomes as Calamity Fund. Most LGUs also reach the maximum cap on the share of PS in their annual income, which are 45% for the 1st-3rd class LGUs and 55% for the 4th-6th class LGUs. So, for many poor LGUs, budget planning and execution is simple; it's all determined by the available IRA.

For unplanned health expenditures, the provincial/city/municipal health official can request for supplemental funds from the local government. If the budget office certified the availability of funds for the purposed, and then indorsed by the governor or mayor to the local *sanggunian* (council), the latter will consider the request. The whole process could take two months. For emergency purchases, say of drugs in times of calamities, the local health officials can request for funds under the Calamity Fund.

The uncertainty regarding the timing and volume of in-kind transfers (like drugs) from the DOH and other national government agencies can lead to inefficient use of local health budgets. In the municipality of Binangonan in Rizal province, the local government procures anti-hypertensive and anti-diabetes medicine and dispenses them in its own pharmacy under the Office of the Mayor. The DOH drugs under its Hypertension and Diabetes Club programme are delivered to and dispensed at the city health office. Due to lapses in control, some patients can get their drug supply from both sources for the same month.[16]

3.2.2. Recent PFM rule changes to improve budget utilisation

Apart from the amendments in the implementing rules and regulation of the procurement law, there are several public financial management reforms undertaken since 2000 intended to improve budget utilisation. Foremost among these are GAA as Release Document (GAARD) in 2013, the Performance-Based Bonus (PBB) in 2012, and the Two-Tier Budgeting Approach (2TBA) in 2016 (see Table 2). Before 2013, government agencies would need to wait for authority from the DBM to obligate their budget allocations. With the GAARD reform, they can now refer to their approved budget appropriations in the GAA as the full and ready amount that they can start obligating to initiate their proposed projects, programmes and activities. For their ready reference, the GAA is published online in the DBM website.

The two other major PFM reforms administered by the DBM - PBB and 2TBA - are as much about accelerating budget expenditures as being accountable for the budget

execution. Under the PBB, the spending unit can receive for its personnel a cash bonus, from as low as PHP 5 000 to PHP 30 000 each, provided they reach a certain performance threshold for the year. The performance targets are set early in the year, and then actual performance is evaluated at the end. Achieving the target also entails spending the budget.

The 2TBA effectively attaches different incentives to on-going (Tier 1) and new budget (Tier 2) proposals, with a heavy bias on the former. The bias is understandable since project completion will have a more immediate social or economic impact than those that are yet to start. Moreover, the government has already sunk-in investments in these undertakings, and so completing them makes sense. Higher allowances for Tier 1 items are made conditional on previous year's actual spending, plus some adjustment for inflation.

The DOH adapts the 2TBA in its internal budget allocation. According to Mr. Laureano Cruz, the Director of the Office for Administration, Finance and Procurement, their prioritisation for Tier 1 items is directly linked to the budget utilisation rate (BUR) of each unit. If the BUR is at least 80%, the next year's budget is at least equal to last year plus a 10% adjustment for inflation. If the BUR is less than 80%, the budget would the same as last year. While the units can propose projects for Tier 2 allocation, the DOH Secretary can approve or disapprove them. Currently there are moves to eliminate planned budget carryover, with one year validity of appropriations.

To monitor the agencies in their budget execution, the DBM also requires the completion and submission of 4 forms (Box 5). Using the information contained therein, the DBM can already identify lagging agencies in mid-year and to help them speed up their budget implementation. Reportedly, a meeting between the new DBM and DOH Secretaries resulted in the DBM's approval of new plantilla positions in the DOH's own procurement office.

Box 5. Budget Execution Documents submitted to DBM

BED 1: Physical and Financial Plan (PFP) - Overall physical (targeted outputs) and financial (estimated obligations/expenditures) plan of the agency consistent with their approved budget level for the year, broken down by quarters.

BED 2: Monthly Cash Programme - Monthly disbursement requirements of the agency, which is the basis for issuance of NCA, Cash Disbursement Ceiling and other disbursement authorities.

BED 3: Estimate of Monthly Income - Reflects the estimated income for the year by source, as contained under the Budget of Expenditures and Sources of Financing of the given year.

BED 4: List of Not Yet Due and Demandable Obligations - Reflects the level of obligations/expenditures charged against prior years' budget, for which goods/services/projects are not yet delivered/rendered/completed and accepted as of end of the preceding year.

3.2.3. Equity in budget allocation

As mentioned above, the allocation of the national budget for the social health insurance is pro-poor. The earmarking of incremental tax revenues for insurance coverage of the poor in the NHTS-PR list minimised the inequities before the sin tax law was issued when the poor were identified and enlisted by the local governments. The old process relied on using

means test devised by local governments, which resulted in a lot of the so-called "political indigents" (i.e., people who are not poor but whose ties or connections with politicians enabled them to get premium subsidies). Even the truly qualified indigents, however, may not have been enrolled because their local government lacks funds.

Despite expansion in coverage of the poor, health service utilisation among them remains low. To encourage better health seeking behaviour, PhilHealth has introduced new benefit packages targeted to those in the Sponsored/Indigent Program. The Primary Care Benefit package provides free out-patient consultation for the covered indigent families in accredited RHUs. When these families avail of hospital services, they are also assured that treatment is free if the facility is accredited for PhilHealth's "No Balance Billing" Policy. Under this scheme, the full costs of hospital care will be borne entirely by PhilHealth, and the hospital may not impose extra fees or charges on the insured poor patient. However, there is no evaluation yet of the impact of the PCB1 and NBB Policy on health care utilisation and spending by the insured indigent families.

Another recent PFM reform that has the potential to improve the lives of the poor is the Bottom-up Budgeting (BuB) approach. Under this approach, local needs are directly linked to the national government budget process. This approach takes advantage of the knowledge of local needs and conditions of the participants, which include local officials, and ensures the provision of projects or programmes that are not constrained by the dire finances of many local governments. In a review of the BuB process in 12 municipalities in the provinces of Agusan del Norte, Camarines Sur, Negros Occidental and Quezon, it has been found to have improved people's participation in the budget process, but also that its implementation has been slow, partly because of the poor feedback from national government agencies. Further, there was also poor co-ordination in the project implementation between the national government agencies, LGUs and civil society organisations (Manasan, 2015).

3.3. Performance monitoring and evaluation

3.3.1. Mechanisms for monitoring health spending

There exist several mechanisms that monitor health spending at the national level and at the local level. What is less clear however is how effectively these are used.

At the macro-level, the National Health Accounts (NHA) produced by the Philippine Statistics Authority track the sources and uses of financing for health. The NHA has been used in the formulation of the HSRA, Fourmula One for Health, and the *Kalusugang Pangkalahatan* of the DOH in charting strategic reforms in the sector, including those needed to improve the financial protection conferred by PhilHealth coverage. Academics, development partners and other stakeholders in the health sector also refer to the NHAs in their own works and advocacies.

The DOH's own budget spending of course is monitored by the DBM and then audited by the Commission on Audit. As is required of all national government agencies, the DOH submits online its Financial Accountability Reports on a monthly or quarterly basis to the DBM and COA. As mentioned above, the DBM monitors spending priorities through the OPIF and PIB, the progress in spending through the Budget Execution Documents (BEDs) and 2TBA. The BEDs disaggregates the budget into quarterly and monthly milestones, with agencies required to submit budget and financial accountability reports on how they are performing against their plans.

In recent years, the DBM also set aside funds for third-party evaluations of selected government projects and programmes. Some of the relevant evaluation studies on health, including the use of the HFEP funds and on the enrolment and coverage of PhilHealth, were undertaken by the Philippine Institute for Development Studies (e.g., Picazo, Pantig and Dela Cruz, 2015). According to a DBM official interviewed by the study team, one upshot of these evaluations is the shift in emphasis from coverage to access and financial protection in assessing the uses of the earmarked funds for social health insurance towards achieving UHC, as shown in 2017 National Budget Call documents.

As an independent constitutional body, the COA undertakes an annual post audit of all government agencies, reports its audit findings, and renders an opinion on the efficiency of the budget execution. Its negative findings are usually published in newspapers, while its more serious findings lead to filing of cases to court.

PhilHealth's own spending is monitored by its Board of Directors chaired by the Secretary of Health. Within PhilHealth, the Corporate Planning Department is the main unit responsible for monitoring and reporting. As a government owned and controlled corporation (GOCC), PhilHealth is under the ambit of the Governance Commission for GOCCs (GCHG), an agency created in 2011 to regulate the GOCCs. As such, the PhilHealth must report its financial performance to this regulatory body.

At the LGU level, two Bureaus monitor overall fiscal performance, not particularly on health spending. These are the Bureau of Local Government Supervision (BLGS) of the Department of Interior and Local Governments, and the Bureau of Local Government Finance (BLGF) of the Department of Finance. The BLGS monitors LGU performance by requiring LGUs "to post local budget and finances, bids and public offerings, and their status of program." From the report submitted, it generates and publishes online monitoring indicators such as "Annual budget report (ABR); Annual Gender and Development Accomplishment Report (AGDAR); Annual Procurement Plan/ Procurement List (APP); Bid results on civil works, goods and services, & consulting services (BCRCWGS); Items to Bod (IB); Local Disaster Risk Reduction and Management Fund Utilization (LDRRMF); Quarterly Statement of Cash Flow (QSCF)." While these indicators are used in conferring the Seal of Good Housekeeping to compliant and high-performing LGUs, no sanction is meted out to those LGUs unable to submit the required information.

The BLGF monitors the financial position of LGUs through the submission of Statements of Receipts and Expenditures by the local treasurers. Among the monitoring indicators it publishes online are "Public Sector Financial Position, Contribution of Local Revenue to GDP, LGU fiscal data, LGU debt data, and Revenue Generation Collection Efficiency." It can sanction local treasurers who fail to submit SRE reports online. For the 1st offence, the punishment is a reprimand; for the 2nd, suspension from one to 30 days; for the 3rd, dismissal from service. It can also impose suspension or dismissal from service on local treasurers who submit inaccurate reports.

3.3.2. Linking financial indicators to health service performance and health outcomes

Again, at the national level, the OPIF is the mechanism that links financial indicators to health service performance. To the extent that a health service performance is directly linked to inputs or activities that can be easily costed out, then the use of budget appropriated for the purpose can be connected at once to the accomplishment health service task. Harder to measure are the real links between financial indicators and health outcomes, for the latter are usually a function of not budget spending but also other factors. However,

alongside the DBM's OPIF, the NEDA's results matrix for each agency provides a programmatic link or the possible contribution of health financing to health outcomes.

In recent years, the DOH has used the Benefit Delivery Rate (BDR) to assess the effective financial protection that PhilHealth coverage provides to its beneficiaries. The BDR is a composite of three ratios: the proportion of population with PhilHealth coverage, the proportion of the covered population who got sick and claim insurance benefits, and the proportion of the amount of PhilHealth reimbursement in the total cost of hospitalisation. In 2011, the effective protection is only 8%. Although the ideal BDR has not been defined, this is clearly too limited protection. The BDR helps focus on key areas for improving PhilHealth performance, namely: enrolment, claims processing and support value. Enrolment is likely to remain high with the earmarked funds for the insurance coverage of the poor. The focus now shifts to increasing benefit utilisation, as specified in the DBM's latest Budget Expenditures Priorities Framework.

As mentioned above, the DOH uses a monitoring and evaluation tool called the LGU Scorecard. According to its Bureau of Local Health Development, the LGU Scorecard "is a performance assessment of the combined efforts of stakeholders within the province-wide health system (PWHS), which include the clients and public private providers within the municipalities, cities and provinces." It currently covers 80 provinces and the 17 LGUs in Metro Manila. The LGU score includes financial indicators such as 1) posting of current budgets and previous years statement of receipts and expenditures in conspicuous places, website or newspaper, 2) share of health in the provincial budget and in the municipal budgets; and service delivery or capacity indicators such as hospital beds to population ratio. The province is rated as whole, which is perhaps convenient, but does not necessarily promote accountability in LGUs comprising the province. The advocacy value of the LGU Scorecard is to call attention to importance of both inputs (budgets) and outputs (hospital services) in assessing overall performance in heath.

3.4. Transparency and accountability

3.4.1. Transparent at the national, but less so at the local level

With the DBM's issuance of the National Budget Circular 542 (see Box 6) in August 2012, all national government agencies began posting up important public information in their websites. Among the information uploaded are the approved budgets, list of major programmes and projects and their status of implementation, and annual procurement plans. The DOH, of course, maintains its transparency seal as directed.

More and more information are now made available online. The DBM website contains information on the budget appropriation, allocation and obligation of each national government agency, including the DOH. The Commission on Audit also uploads its findings, albeit with a lag.

However, similar information from the LGUs is not always available, whether online or in hard copies. There are still many LGUs without their own website, much less automated their own financial or performance monitoring system. Reports are still produced manually. This adds to the difficulty of assessing the equity, efficiency or sustainability of local financing and budgeting for health.

Box 6. Transparency Seal in National Government Agencies

"National Budget Circular 542, issued by the Department of Budget and Management on August 29, 2012, reiterates compliance with Section 93 of the General Appropriations Act of Fiscal Year 2012. Section 93 is the Transparency Seal provision, to wit:

Sec. 93. Transparency Seal. To enhance transparency and enforce accountability, all national government agencies shall maintain a transparency seal on their official websites. The transparency seal shall contain the following information: (i) the agency's mandates and functions, names of its officials with their position and designation, and contact information; (ii) annual reports, as required under National Budget Circular Nos. 507 and 507-A dated January 31, 2007 and June 12, 2007, respectively, for the last three (3) years; (iii) their respective approved budgets and corresponding targets immediately upon approval of this Act; (iv) major programs and projects categorized in accordance with the five key results areas under E.O. No. 43, s. 2011; (v) the program/projects beneficiaries as identified in the applicable special provisions; (vi) status of implementation and program/project evaluation and/or assessment reports; and (vii) annual procurement plan, contracts awarded and the name of contractors/suppliers/consultants."

3.4.2. Fragmented accountability at the local level

Upward accountability is stronger than downward accountability in the Philippines. That is, the DOH is more accountable to the President or NEDA for its performance, and to DBM and COA for its budget, than it is to the people it serves. Perhaps this approach could work well if the system would provide more direct reports to the people on the service benefits.

While the fiscal decentralisation has brought the government closer to the people, it has not likewise made the local government accountable to its constituents. Three reasons might account for the weak accountability of the local officials. One possible reason is that local population do not mind the poor service because they do not pay for them anyway. The lack of connection between the taxes paid and the value of the services received does not incite people to demand better services. Another reason is that the DOH effectively bails out the local government. When the DOH usurps local health functions, the LGU is not anymore "free to fail". When there is a failure, the LGU can blame the DOH for it. Still another reason is the weak institutions for exacting political accountability. Elections in the Philippines are good at rewarding good performers but not good at punishing bad performers.

4. Conclusions and recommendations

Good progress towards UHC in the Philippines has been made, especially in recent years. in terms of extending health insurance coverage. This has been achieved thanks to the resoluteness of the DOH and other government bodies in pushing for UHC, and the fiscal space provided by a growing economy and tax reforms that have earmarked significant additional funds for health services. Key social reforms, including conditional cash transfers, have also contributed to better health care, by providing stronger incentives, especially to the poor and marginalised, to seek health care.

Thanks to earmarked tax revenues, overall health financing for the public sector is likely to be robust in the coming years. Major public financial management reforms in recent years have had, and will continue to have, significant positive implications for health budgeting and its sustainability. Yet, despite these improvements, health coverage remains less than universal, even for the poor who have been specifically targeted to benefit from various programmes and initiatives of the DOH and PhilHealth. Our analysis of health budgeting and financing in the Philippines recommend a few points for the management of public finances to contribute to achieving and sustaining UHC.

Overall

- Fully implement the LGU Public Financial Management Reform Roadmap. This will help local governments match the progress made in public financial management at the national level.
- Simplify local planning initiatives. In particular, local investment plans for health, local poverty reduction plans and other local development planning activities should be better co-ordinated to ensure consistency and avoid duplicative work.
- Improve the programming and monitoring of the intergovernmental fiscal transfer system. Key policy reforms include:
  - Requiring executive agencies of departments such as the DOH to submit to the DBM their detailed plans for fiscal transfers (in cash or kind) to local governments. Then once approved make these plans part of the budget envelope transmitted to LGUs when local budget calls are issued.
  - Imposing sanctions on LGUs that fail to comply with the required submission of local plans
  - Conducting independent audits or value-for-money evaluations of selected government programmes and projects, and increase the visibility of local financial indicators

For the DOH

- Improve the capacity of the DOH to estimate local resource needs for public health services covered under its vertical programmes (such as tuberculosis, malaria and dengue). This can help reduce stock-outs of medicines and other essential medical supplies. In particular:
  - Provide training, IT infrastructure and incentives to local health personnel to undertake disease surveillance and health monitoring.
  - Link local health information systems with the DOH's own information system. This can enable real-time data about local demand and available (or planned) local government supplies, thereby providing better estimates of the required volume of medicines and other supplies by each locality.
- Provide LGUs with forward estimates of medicines and other in-kind transfers that will be provided by the DOH. This should be before or early on in the local budget formulation process.
- Improve drug procurement processes and capacity. Key reform options include:

  - Delegating drug procurement and logistics management to regional units (CHDs), who have better information about local needs and whose closer proximity to LGUs should allow them to have a faster response time.
  - Considering an online drug supply monitoring system for the DOH, whereby LGUs can report online their available stocks and request for replenishments when needed.
  - Enhance human resource capacity in procurement, then deploy appropriately skilled personnel in CHDs.
- Improve monitoring of usage of medicines and other in-kind transfers. DOH provincial health teams could, for example, conduct random field visits to local health facilities to ensure supplies are being received in a timely manner, and to prevent abuse.

For the LGUs

- Improve implementation of public financial management processes and forms at the local level, to match that level achieved for the national government agencies.
- Reinvigorate the local health boards, including through membership of civil society representatives and participatory health planning.
  - In some localities this requires reconstituting the boards with mandatory membership of civil society representatives. For localities with civil society representation, it is more about having active participation from civil society representatives and other board members.
  - Towards this goal, the DOH could establish an online registry of local health boards, and PhilHealth could make the registration of local health boards a condition for accrediting rural health units for its Primary Care Benefit Package.
- Enhance resource mobilisation for health from local tax revenues.
- Invest in local health facilities to acquire PhilHealth accreditation.
- Enhance capacity to produce mature project proposals to be funded out of the HFEP.

For PhilHealth

- Fortify the shift in performance focus from enrolment to benefit utilisation, especially for the poor, and develop the necessary monitoring indicators and information system.
- Strengthen mechanisms to ensure financial viability of the benefit packages, including possibly cost controls and increasing the premium rate for those in the formal sector. Since the poor are now wholly subsidised through the earnings from the sin tax, their premium may also be adjusted to an actuarially fair level (i.e., adjusted for their risks, utilisation rates and cost of care).

Notes

[1] Amended later as the National Health Insurance Act of 2013 (Republic Act No. 10606).

[2] Chief Justice Maria Lourdes Sereno clarifies that the TRO applied only to two specific contraceptives - Implanon & Implanon NXT. Hence, the TRO will not hinder the implementation of the RH Law. More details are provided here: http://cnnphilippines.com/news/2017/07/27/RH-Law-TRO-Supreme-Court.html

[3] Defined as the difference between the revenues with and without the new law minus those allocations mandated under Republic Act 7171 and Republic Act 8240.

[4] To distinguish the poor beneficiaries enrolled with the earmarked six tax revenues, PhilHealth created a separate membership programme for them, the Indigent Program. However, PhilHealth still maintains the Sponsored Program for the poor and other families not otherwise included in the NHTS-PR list and whose insurance premiums are subsidised by their local governments or other benefactors.

[5] Roughly, "Health for All".

[6] One study (Quimbo et al 2011) estimates that the "cumulative likelihood that any Filipino is eligible to claim, knows entitlements, is able to access and avails health services from accredited providers; and has total health care expenditures fully reimbursed by PhilHealth is only 8 percent."

[7] On average, the IRA accounts for more than 60% of the total income of a local government (Llanto, 2012). The total IRA for a given year is based on the internal revenue collections of the national government in the third preceding year. The IRA of a given LGU is based on its level (whether province, city, municipality or *barangays*), and the size of its population and land area relative to all LGUs within the same level, and on equity part (an equal amount for all LGUs in the same level).

[8] No separate expenditures on health is reported. Data from the Bureau of Local Government Finance.

[9] By 2016, there are 140 cities, nearly twice the number when the fiscal decentralisation programme started in 1992.

[10] Using a panel dataset of LGUs for years 1995-98, the authors found that IRA has negative effect on local business tax revenue collections and real property tax revenue collections of provinces and cities, especially for those who experienced positive net resource transfer under decentralisation. Surprisingly, they found in the case of municipalities that the IRA has positive effects on business taxes and real property taxes.

[11] With support from the European Union, the DBM developed in 2016 an automated system for the preparation of local budgets following the procedures outlined in the BOM for LGUs, 2016 Edition. The so-called ELECTRONIC BUDGET SYSTEM FOR LGUs is made available free of charge to LGUs interested in automating their local budget preparation process.

[12] According to PhilHealth's membership rule, the principal members can only extend coverage to his or her spouse, children below 21 years old who are without physical disability, and to children 21 years or above with physical disability. There could be two or more such nuclear families in a poor household included in the NHTS-PR list.

[13] In September 2017, the Supreme Court finally issued a decision proscribing the DOH from procuring and distributing female contraceptive implants (e.g., Implanon).

[14] For example, three failed sealed bids must happen first before an agency can enter into a negotiated bid with a pre-identified supplier. Preparing the bid documents, announcing bid call online and in the papers and then reviewing the bid proposals could take several months.

[15] Perhaps the amendment in IRR particularly relevant to DOH is: "To the extent possible, the BAC in central offices shall render necessary assistance to its regional or lower office BACs to facilitate the conduct of procurement from pre-procurement conference to the post-qualification stage."

[16] Visited by one of the authors in October 2016 to assess the availability of drug supply in selected RHUs.

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Annex 1.A. Key objectives and strategic thrusts for health, by president's term, 1998-2017

By President's term/ years	Department of Heath	Medium Term Philippine Development Plan/Philippine Development Plan (NEDA)
Estrada Administration (1998-2001)	Health Sector Reform Agenda (F1) for Health (2005-2010) • Expansion of the National Health Insurance Program to attain universal coverage, by expanding NHIP enrollment and offering more benefits; increase utilization by using marketing to inform members about the benefits • Increase in health investment funded via internal and external sources; adoption of a performance based-budgeting system (PBBS) for hospital, public health, and regulatory agencies • Improvements in regulatory process and systems, i.e. unified seal of approval system for health products • Institutionalisation of a pharmaceutical management and policy unit to provide technical expertise to the health sector • Development of an integrated health system by rationalising and upgrading provincial and district hospital facilities and services in parallel with developments in regional and national levels • Improvements in managing human resources for health (HRH) by rationalising health science courses; regulation of HRH immigration	• Reduced cost of medicines commonly consumed by the poor • Expanding enrolment of indigents through premium subsidy; specifically o Sustain enrolment of five million indigents to ensure that the poor have access to basic health packages o Expansion of the National Health Insurance program to cover 85% of the population by 2007 • Implementation of the Health Sector Reform Agenda to strengthen local systems via o Improvements in regulation of drugs o Increased managerial and fiscal autonomy of hospitals o Implementation of public health and health financing reforms o Increase in health and productivity through R&D

By President's term/ years	Department of Heath	Medium Term Philippine Development Plan/Philippine Development Plan (NEDA)
Arroyo Administration (2001-2004; 2004-2010)	FOURmula One (F1) for Health (2006-2010) • Expansion of the National Health Insurance Program to attain universal coverage, by expanding NHIP enrollment (especially of the poor), increasing benefit payments, and introducing new benefit packages • Development of a health sector expenditure framework based on priority health programs, geographic income, and population groups; adoption of a performance based-budgeting system (PBBS) for hospital, public health, and regulatory agencies • Rationalisation of regulatory process and systems, i.e. unified seal of approval system for health products; and expansion of access points for low-cost drugs • Establishment of 4-in-1 convergence sites to improve stewardship of the local health systems; development of an LGU scorecard to monitor and evaluate LGU performance	• Expansion of the NHIP through increased enrolment of indigents in the Sponsored Program (SP) and informal sector in the *Kalusugang Sigurado at Abot-kaya sa PhilHealth Insurance* (KASAPI) • Intensified enforcement of national health legislation and standards, legislation of health-related laws at the local level and increased access to low cost quality drugs • Aggressive implementation of public health programs (i.e., National Tuberculosis Control Program, AIDS Prevention and Control Program) and primary care services such as, children health and nutrition, and maternal health • Improvement in LGU governance via: o establishment of convergence sites; o development of LGU scorecard to track progress; o institutionalisation of Health Professional Development and Career Track
Aquino Administration (2010-2016)	National Objectives for Health 2011-2016 (Universal Health Care or *Kalusugan Pangkalahatan*) • Financial risk protection, especially for the poor, against catastrophic cost of ill health, through expansion in NHIP enrollment and benefit delivery • Improved access to quality hospitals and health care facilities via the Health Facilities Enhancement Program (HFEP) • Responsive health system and enhanced client satisfaction, by improving quality of hospitals and health care facilities, and leveraging LGU participation and performance through province-wide agreements • Better health outcomes, towards attainment of health-related MDGs	• Sustaining the expansion of NHIP to cover the poor and informal sector and improving the benefit delivery ratio of the NHIP • Increased access to quality hospitals and health care facilities by implementing necessary upgrades in government owned and operated hospitals and facilities • Attainment of the Millennium Development Goals (MDGs) for health by focusing on public health programs on maternal and child mortality; morbidity and mortality from TB, dengue and malaria, and the prevalence of HIV-AIDS, in addition to emerging diseases; and prevention and control of non-communicable diseases (NCDs)

By President's term/ years	Department of Heath	Medium Term Philippine Development Plan/Philippine Development Plan (NEDA)
Duterte Administration (2016-2022)	Philippine Health Agenda 2016-2022 (All for Health towards Health for All) • Financial risk protection: especially the poor, marginalised, and vulnerable are protected from high cost of health care • Better health outcomes: Filipinos attain the best possible health outcomes with no disparity • Responsiveness: Filipinos feel respected, valued, and empowered in all their interaction with the health system • Attain health-related SDG targets	• Provide quality nutrition and health care interventions at all life stages through programs directed in the following life stages: first 1 000 days, adolescent health, and health services for older person • Improve health-seeking behaviour of individuals, especially the vulnerable population • Enhancement of service delivery networks by upgrading health facilities and improving the HRH • Expanding coverage of NHIP and improving benefit packages • Improvements in the health information systems to address data gaps and form the basis for decision making

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ANNEX 1.B. 2017 OPIF OF DOH

MFO	Components
MFO 1: Health Sector Policy Services	-Number of policies issued and disseminated -Average % of stakeholders that rate health policies as good or better -% of policies in the last 3 years that are reviewed/ updated
MFO 2: Technical Support Services	*Training support* -Number of Human Resources for Health of LGUs and other partners trained -Number of training days delivered -Average % of course participants that rate the training as good or better % of requests for training support that are acted upon within one week or request *Funding support (HFEP)* -Number of LGUs and other health partners provided with health facilities -% of clients that rate the provided health facilities as good or better -% of provided health facilities that are fully operational 3 years after acceptance or installation -% of facilities for which funding is provided that are fully operational within 6 months from approval of request from LGUs *Disease Prevention* -Number of commodities and services to LGUs: vaccination, doctor hours, nurses & midwives -% of stakeholders who rate the commodity supply/ service good/ better -% of requests for commodities and human resource services met in full within 48 hours
MFO 3: Hospital services	-Number of out-patients managed -Number of in-patients managed -No. of elective surgeries -No. of emergency surgeries -Net death rate among in-patients -% of clients that rate the hospital services as good or better -% of in-patients with hospital - acquired infection -% of out-patients with level 2 or more urgency rating attended to within 30 minutes
MFO 4: Health Sector Regulation Services	*Licensing/ Registration/ Accreditation* -No. of permits, licenses and accreditation issued for health products/ establishments/ facilities/ devices and technologies -% of authorised/ accredited entities with detected violations of license accreditation conditions -% of applications for permits, licenses, or accreditation acted upon within 3 weeks of application *Monitoring* -No. of inspections of regulated products and entities -% of submitted reports that resulted in the issuance of notice of violations and penalties imposed -% of entities which have been monitored at least once a year *Enforcement* -No. of reported violations and complaints acted upon -% of cases resolved -% of stakeholder who view DOH enforcement as good or better -Number of cases acted upon within 30 days

Other Performance Indicatiors	Components
Access to Preventive Primary health care services improved	-Percentage of children fully immunized (with BCG, OPV3, DPT3, Hepa-B, measles vaccines) before 12 months of age increased -Percentage of births delivered in health facilities increased (RHUs, birthing homes, district and provincial hospitals, DOH hospitals) -Private treatment success rate of Tuberculosis increased
Access to Quality Hospital Services improved	-Bed occupancy rate of DOH Specialty Hospitals and regional medical centers -Hospital infection rate -Net death rate in DOH retained hospitals
Safe and Quality Health commodities, health devices, health facilities and food ensured	-% of health facilities monitored/ inspected with violations and penalties imposed -% of inspected food, drug, cosmetics, medical device and household urban hazardous substance/ pesticides establishments with violations -Percentage of manufacturing facilities with cGMP increased

Source: Department of Budget and Management.

Annex 1.C. List of interviewees

Date	Name	Position	Office	Department
May 8, 2017	Cristina Clasara	Director	Budget and Management Bureau -B	Department of Budget and Management
May 8, 2017	Nanette Cabral	Chief Budget & Management Specialist	Budget and Management Bureau -B	Department of Budget and Management
May 8, 2017	Grace Darunday	Supervising Budget and Management Specialist	Budget and Management Bureau -B	Department of Budget and Management
May 8, 2017	Yolanda R. Reyes	Assistant Director	Fiscal Planning and Reforms Bureau	Department of Budget and Management
May 8, 2017	Fides B. Basco	Supervising Budget & Management Specialist	Fiscal Planning and Reforms Bureau	Department of Budget and Management
May 8, 2017	Dr. Drew Bautista		Policy Division, HPDPB	Department of Health
May 8, 2017	Lindsley Jeremiah Villarante		Planning Division, HPDPB	Department of Health
May 8, 2017	Christian Nuevo		Research Division, HPDPB	Department of Health
	Laureano Cruz	Director IV	Office for Administration, Finance and Procurement	Department of Health
May 9, 2017	Saeeda Sabah Rashid	Senior Public Sector Specialist		World Bank Manila Office
May 9, 2017	Vida Gomez	Technical Officer		World Bank Manila Office
May 10, 2017	Ruby Moro	OIC Director	Region IV A	Department of Budget and Management
May 10, 2017	Aries Macaspac	Policy	Local Government and Regional Coordination Bureau	Department of Budget and Management
May 10, 2017	Yolanda R. Reyes	Assistant Director	Fiscal Planning and Reforms Bureau	Department of Budget and Management
May 10, 2017	Fides B. Basco	Supervising Budget & Management Specialist	Fiscal Planning and Reforms Bureau	Department of Budget and Management
May 10, 2017	Jane Abella	Assistant Director	Budget and Management Bureau-B	Department of Budget and Management
May 10, 2017	Nanette Cabral	Chief Budget & Management Specialist	Budget and Management Bureau-B	Department of Budget and Management
May 9, 2017	Dr. Eduardo Banzon	Health Specialist		Asian Development Bank
May 9, 2017	Dr. Soonman Kwon	Health Specialist/Economist		Asian Development Bank
May 11. 2017	Janet Mechilina	Technical Officer	Technical Division/Preventive Care	Rizal Provincial Health Office
May 11, 2017	Nilo Dolor	Administrative Officer		Rizal Provincial Health Office
May 11, 2017	Dr. Victoria Lat	City Heath Officer	City Health Office	Antipolo City
May 11, 2017	Dr. Ruby Constantino	Assistant Director	Center for Health Development-CALABARZON (Region IV-A)	Department of Health

Date	Name	Position	Office	Department
May 12, 2017	Violeta U. Padilla	Planning Officer IV	Corporate Planning	Philippine Health Insurance Corporation
May 12, 2017	Vergil M. De Claro	Planning Officer IV (OIC, Division Chief, Performance and Knowledge Management Division)	Corporate Planning	Philippine Health Insurance Corporation
May 12, 2017	Wilbur Marfori	Budget Management Analyst IV	Comptrollership Department	Philippine Health Insurance Corporation
May 12, 2017	Corazon Tabulao	Budget Management Analyst III	Comptrollership Department	Philippine Health Insurance Corporation

Recent developments in the work of the Budget Office

By

Sierd Hadley, Dirk Kraan, Bryn Welham

This article describes the changes that have taken place in the work of the Budget Office of the central government as a consequence of the transition from the traditional budget process, often referred to as "incremental budgeting", to top-down budgeting. This transition has taken place in most OECD countries in the course of the last three decades and has generally led to the end of the century-old trend of growth of the public sector relative to GDP. As a consequence of this transition the role of the budget office has shifted from operational expenditure control to supervision on the maintenance of the medium term expenditure framework. In general this has led to a more co-operative relationship between the Budget Office and the financial divisions of the line ministries. This article is based on case studies in three countries, namely the United Kingdom, the Netherlands and Slovenia and highlights the differences in their budgeting procedures and the extent to which the transition to top-down budgeting has been implemented.

JEL codes: H30, H50, H60

Keywords: Top-down budgeting, Incremental budgeting, Fixed and flexible medium term expenditure frameworks, Decentralisation of operational expenditure control to line ministries, Institutions and behavioual patterns as determinants of budgetary outcomes

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The authors are grateful to Mr. Mark Miller, Director of the Overseas Development Institute, Mr. Helmer Vossers and Mr. Peter van den Berg, former Directors of the Inspectorate of Finance and of the Budget Directorate in the Dutch Ministry of Finance, and Mr. Janez Šušteršič, former Minister of Finance of Slovenia for their comments on an earlier version of this paper. The authors are also grateful to the Center of Excellence in Finance in Ljubljana which assisted us in many ways with the collection of information about the Slovenian budget process.

This article was completed at the end of 2017 and does not include the changes that may have occurred between the article's completion and publication. Any errors in this article are solely the authors' responsibility.

1. Three case studies of the development of the Budget Office in recent years

1.1. A behavioural approach

Most of the literature on budgeting focuses on the institutions of the budget process. It describes the rules of budgetary decision-making in separate countries and identifies the institutional similarities and dissimilarities between countries on a comparative basis. This work is supported by international organisations, such as the OECD and the IMF, that collect and publish data on the budgetary institutions of member countries, including the evolution of these institutions over time. This literature is valuable because it enables practitioners to learn about developments in other countries and take advantage of the lessons learned. In addition this work is important because it serves as the basis for a second branch of literature which focuses on more theoretical aspects and tries to explain, and even predict, the outcomes of budgetary decision-making on the basis of prevailing institutions.

In the theoretical literature there are rather diverse approaches, depending on the type of theory that is used to produce explanations or predictions. Well-known are the organisational process approach that was developed by Wildavski in the 1960s on the basis of a behavioural theory of decision-making and that became known as budgetary incrementalism, and the economic approach that was developed by Von Hagen and others on the basis of insights stemming from game theory and public choice theory. Theoretical insights of this nature are relevant for the policy community, which seeks to reform budgetary institutions in order to achieve better outcomes.

In principle the theoretical literature looks at both outcomes and behaviour. Indeed, the basic reasoning is that institutions, namely the decision-rules of the budget process, induce certain behaviour and behavioural patterns in the key decision-makers, namely politicians and governmental officials (bureaucrats), which in turn lead to certain outcomes, namely decisions about expenditures, revenues and borrowing. In practice, the focus in this literature is overwhelmingly on outcomes, rather than on behaviour. This paper tries to move the balance a little in the other direction by focusing on behaviour. Focusing attention on behaviour, that is on the practices and activities of politicians and officials, as an intermediate stage towards final outcomes, can contribute to a better understanding of the effects of institutions and hence to the improvement of budgetary theory.

Furthermore, information about behaviour and behavioural patterns is valuable for practitioners, regardless of any theoretical considerations. Just as practitioners are interested in information about institutions in other countries, so are they interested in comparative information on behaviour and behavioural patterns. It may also provide a stronger basis for providing "actionable" lessons: moving beyond the establishment of new institutional arrangements toward an understanding of how these work out in the daily activities of practitioners.

1.2. Focus on the Budget Office

The Budget Office (in a narrow sense) is defined in this paper as the unit that advises the responsible executive politician (Minister of Finance or Minister/State Secretary for Budget or, if the Budget Office is located in the President's Office, the President) on the budget and concrete public expenditures of line ministries (including the Ministry of Finance in its capacity as a line ministry). This advice may comprise matters of budget preparation, parliamentary authorisation, budget execution or financial reporting.

This narrow definition is chosen because the distribution of tasks with respect to fiscal policy in general[1] is quite diverse in different countries. These tasks can be distinguished in different ways. For the purpose of this paper, a classification based on the separation between institutions and behaviour is proposed. On this basis the following list of tasks can be drawn up:

1. Institutional policy with respect to procedures, including, among other things:

- fiscal rules and rules about the expenditure framework,
- the budget classification,
- the budget calendar,
- rules about compilation and updating of budget estimates,
- rules about investment selection and execution of investments,
- rules about revision of the budget in supplementary budgets.
- rules about budget execution
- rules about accounting and financial reporting, including rules about the accounting base of budget authorisation (cash/commitments, accruals, modified accruals),
- rules about evaluation (*ex post*).

2. Institutional policy with respect to organisation, including among other things:

- specification of sectors that are subjected to ceilings,
- rules about arm's length and independent agencies,
- specification of budget holders (officials authorised to enter into commitments and to order payments),
- rules about independent economic forecasting institutions.

3. Tax policy, including among other things, decision making about:

- general fund taxation (including regulatory taxation),
- earmarked taxation (including social security premiums).

4. Expenditure policy, including among other things, decision-making about:

- targets for total expenditures, revenues, budget balance, public debt,
- sectoral expenditure ceilings,
- expenditure line items[2] and medium term estimates, including expenditures from extra-budgetary funds, such as social insurance funds,
- guarantees, tax expenditures, non-tax revenues.

Responsibilities for the institutional policies listed under numbers 1 and 2 above are often assigned to (separate branches of) the Budget Office, but sometimes not[3]. Responsibility for tax policy listed under number 3 is usually assigned to a separate fiscal division of the

Ministry of Finance and for social insurance premiums to the Ministry of Social Affairs or equivalent[4]. Only the expenditure policies listed under number 4 are typically a responsibility of the Budget Office in narrow sense. It should be emphasised however, that in most governments, there are extensive co-ordination mechanisms which ensure that relevant units outside the Budget Office and outside the Ministry where the Budget Office is located, have a say in the most important decisions, such as medium-term targets for total expenditures; revenues; the budget balance and the public debt; and about the sectoral medium-term expenditure ceilings.

This said, this paper focuses on the practices and activities of the Budget Office in the narrow sense while taking account of the fact that communication and co-ordination with other relevant units is an essential component of its task performance, regardless of whether the latter units are organised inside or outside the same office.

1.3. Selection of the case studies and topics to be addressed

This paper focuses on three countries: the United Kingdom (the UK hereafter), the Netherlands and Slovenia. These countries have been chosen for both substantive and pragmatic reasons.

The UK and the Netherlands belong, together with Canada, Australia, New Zealand, the Scandinavian countries and the US, to the group of countries that have been at the forefront of institutional reform since the Second World War. In particular, these countries have during the last 50 years fundamentally reformed their budget process in conjunction with other features of public administration, on the basis of subsequent waves of new ideas that have been denoted as "Receding Government" and "New Public Management" (OECD 2016).

Furthermore, the UK and the Netherlands belong to the countries that have extensively devolved financial management to the line ministries. This devolution does not only apply to the financial administration of the budget holders in the line ministry[5], but also to the control of all financial operations of the line ministry. This far-reaching form of devolution has been described in a recent paper as the "financial control model" of the finance function in line ministries (Kraan, 2016). Apparently, this similarity is possible in spite of quite different constitutional arrangements, which imply that the UK is usually governed by a strong majority party and the Netherlands by a coalition of minority parties.

Slovenia is a young country that gained its independence in 1991 after a short war against the Yugoslavian army. It has developed its public sector institutions almost from scratch, including its constitution, major organic laws and working procedures of the major organs of State. The process has been successful and was crowned by the accession of Slovenia to the European Union in 2004 (Kraan and Wehner 2006). The euro was subsequently adopted in 2007.

Slovenia is an example of a Central European country that features a traditional budget process. In this respect it is comparable to countries such as Austria, Hungary, Germany, Czech Republic and Slovakia. A notable feature of these countries is that in spite of otherwise traditional procedures they have been able to make the move from incrementalism towards top-down budgeting, ensuring that predetermined aggregate targets for expenditures, revenues, budget balance and public debt have roughly been achieved. On the other hand, the Receding Government and New Public Management reforms that have thoroughly affected the Anglo-Saxon countries, the Netherlands and the Scandinavian countries, have affected these countries to a lesser extent[6].

Furthermore, in Slovenia and the other mentioned countries there has never been a tradition of extensive financial devolution to the line ministries. According to the paper on the finance function in line ministries (Kraan 2017) mentioned earlier, the division of tasks between the Budget Office and the line ministries in Slovenia can be represented by the "conventional model". This implies that the finance divisions of line ministries take care of the financial administration of the ministry, but have no, or only limited tasks in the maintenance of aggregate fiscal discipline (budget control), allocation of resources (fiscal co-ordination) and supervision of the effectiveness and efficiency of sectoral policies (operational control) within the ministry.

The UK, the Netherlands and Slovenia thus constitute a sample of three countries that differ in two respects. The UK and the Netherlands have reformed their budget processes in accordance with successive reform waves over the past half century and moreover, stand in a long tradition of devolution of financial management authority to the line ministries. Slovenia on the other hand was less affected by these reform waves and stands in a tradition of strong centralisation of financial management authority. Furthermore, the two reform minded countries feature two different types of constitutional arrangement, thus increasing the likelihood that something can be learned from our findings for countries of both constitutional types.

Apart from these substantive considerations, the selection of the UK, the Netherlands and Slovenia for the case studies in this paper was motivated by pragmatic conditions. First, the authors were already familiar with one or more of these countries, either because they had worked in the Ministry of Finance or because they had been engaged in previous work on financial management in one or more of these countries. This made it easier to collect the relevant information. Second, looking at the same three countries that were studied in the paper mentioned above Kraan 2017 is useful. This made it possible to use information that was already collected for the previous paper. Moreover, the two papers together now provide a more complete picture of the behavioural interaction between the Budget Office and the line ministries in each of these countries.

The information on which the paper is based, comes from various sources. The authors looked at existing literature and data collection on the budget process in these countries, including reports from international organisations such as the OECD and the IMF. In addition interviews with two or three budget analysts were conducted in each country. For the purpose of this paper a budget analyst is defined as an official of the Budget Office who is responsible for advice to the head of the Budget Office and the minister about a certain domain of expenditures and non-tax revenues of a line ministry. The head and members of the management team of the Budget Office are not budget analysts in this sense.

For the purpose of the interviews the Directors of the Budget Office were approached for their co-operation. Interviews were conducted with middle ranking officials, who had a good overview on the work of the Budget Office as a whole, but were close to the actual work of the budget analyst or still did such work themselves. In most cases the budget analysts were selected by the Director of the Budget Office. As it turned out, almost all interviewees were head or deputy head of a spending division/team, responsible for the supervision of one or more line ministries.

The questionnaire used in the interviews focused on key tasks of the budget analyst, managing the relationship with the line ministry and qualifications for the work of the budget analyst in conjunction with human resources aspects[7]. Sometimes the answers led to discussions on related aspects of a question that provided additional relevant information.

The paper is structured as follows. Sections 2 and 3 describe the context of the work of the budget analyst in each country. Section 2 looks at the core outcomes of budget policy over the last decade, including the impact of the global financial crisis and the policy response to the crisis. Section 3 looks at the institutions of the budget process in each country, divided over the organisational setting and the procedural setting. Section 4 is dedicated to the work of the budget analyst and constitutes the core of this paper. It looks at the key tasks of the budget analyst, the prevailing practices for managing the relationship with the line ministry and the required qualifications of a budget analyst and related human resource aspects. Section 5 summarises the findings of this paper and provides some ideas on the theoretical relevance of the findings.

2. Core fiscal outcomes over the last ten years

2.1. Impact of the global financial crisis

The global financial crisis has had a profound impact on all three countries in the sample. The data in Table 1 on GDP and key fiscal parameters illustrates the impact of the crisis.

Table 1. GDP growth (year-on-year) and key fiscal parameters (percent GDP)

% GDP (GG)	2007	2008	2009	2010	2011	2012	2013	2014	2015
UK									
Growth Real GDP (y-o-y)	2.6	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2
Gross Expenditure	41.3	45.0	47.9	48.0	46.5	46.3	44.7	43.7	42.9
Fiscal balance	-2.9	-4.9	-10.2	-9.6	-7.6	-8.3	-5.7	-5.7	-4.3
Gross debt	51.3	63.4	77.0	89.1	103.3	107.0	102.8	113.3	112.6
Netherlands									
Growth Real GDP (y-o-y)	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.2	1.4	2.3
Gross Expenditure	42.5	43.6	48.2	48.2	47.0	47.1	46.3	46.2	45.1
Fiscal balance	0.2	0.2	-5.4	-5.0	-4.3	-3.9	-2.4	-2.3	-1.9
Gross debt	48.5	61.3	64.1	63.0	72.0	77.8	76.6	81.2	77.9
Slovenia									
Growth Real GDP (y-o-y)	6.9	3.3	-7.6	1.2	0.6	-2.7	-1.1	3.0	2.3
Gross Expenditure	42.2	43.9	48.2	49.3	50.0	48.6	60.3	50.1	48.1
Fiscal balance	-0.1	-1.4	-5.9	-5.6	-6.7	-4.1	-15.1	-5.4	-2.9
Gross debt	29.1	28.4	42.5	46.8	50.4	60.5	78.9	99.2	102.1

Sources: OECD Statistics (Real GDP: national accounts; Expenditures, Fiscal balance, Gross debt: Government at a Glance). All data apply to General Government Expenditure (including local government and social security funds). Gross Expenditures include expenditures funded from non-tax revenues.

The UK experienced a short but deep recession as a consequence of the financial crisis. Unemployment and inflation both rose after the crisis, although less than expected. In the UK the fiscal picture over the period 2007-17 is very much a tale of two halves before and after the financial crisis. The UK's fiscal position was affected by the financial crisis more than other G7 countries. In a very short period the UK fiscal deficit deteriorated, reaching

10.2% in 2009. Public debt increased rapidly. Despite the very negative headline fiscal position, the interest costs of UK public debt has remained low by historical standards, partly due to unprecedented low interest rates.

The Netherlands experienced a prolonged period of negative or low growth as a consequence of the crisis. Before the crisis the general picture of public finances was sound. The public debt in 2007 was 48.5% of GDP, the lowest since the 1970s. This resulted from a gradual decline starting from a peak of 78.5% of GDP in 1993. The fiscal balance worsened from a surplus of 0.2% GDP in 2008 to a deficit of 5.4% in 2009 as a consequence of the crisis. Public debt increased as a consequence of the deficits, the stagnating GDP growth and interventions in the banking sector to 81.2% of GDP in 2014. The Netherlands were subjected to the excessive deficit procedure of the EMU (Economic and Monetary Union of the EU) in 2009.

After a period of relatively rapid economic growth in the early 2000s, Slovenia's GDP contracted deeply in the wake of the financial crisis, which spilled into a bank and sovereign debt crisis in 2012-13 and widened the budget deficit briefly to over 15% of GDP. Ten-year sovereign bond yields rose to almost 7% between 2012 and 2014 before eventually falling back to below 2% in 2015. Public debt has risen from around 29.1% of GDP in 2007 to 97.1% in 2014. Slovenia was subjected to the excessive deficit procedure of the EMU in 2009.

2.2. Policy response to the global financial crisis

In the UK growth resumed in 2010, albeit at a slower pace than pre-crisis. Unemployment and inflation have fallen back again. The UK is now partway through a period of prolonged fiscal consolidation. The annual deficit has been progressively cut, although public debt continues to rise. There are political disagreements between the major political parties on the pace, method and the final end-point of fiscal consolidation. Overall, from a period of steady real-terms increases in spending up to 2008, the UK is now managing a budget that has steadily been decreasing in many areas. The picture has been complicated since June 2016 when the UK has announced its intention to leave the EU. There is significant uncertainty surrounding the UK's future economic relationship with the EU, and corresponding uncertainty as to how this will affect economic growth and ultimately the UK's fiscal position. Risks are widely assumed to be on the downside, at least in the short to medium term. In addition, common with many OECD countries, the UK faces a "slow burn" fiscal challenge relating to the costs of an ageing population. The costs of maintaining all current explicit and implicit public service and welfare guarantees to an ageing population imply consistent, significant and ultimately likely unsustainable increases in expenditures in the long term (Office of Budget Responsibility 2017).

In the Netherlands GDP growth picked up again in 2014, but thus far at a lower level than was usual in the 1990s and the first years of the new century. The Netherlands have followed a drastic consolidation policy. In subsequent years extensive savings packages were adopted[8]. This made it possible to reduce the deficit below the GDP threshold of 3% as from 2013 and to exit the excessive deficit procedure of the EMU. A package of tax relief was adopted in 2016 amounting to EUR 5 billion structurally. Table 1 shows that the deficit was gradually reduced after 2009 to 1.9% in 2015[9]. Furthermore the public debt started decreasing from 2014, mostly on the back of increasing GDP growth, attaining 77.9% of GDP in 2015[10]. The consolidation efforts were not only aimed at improving the budget balance but also at improving the long term sustainability balance[11]. Two important measures were the alignment of old age pensions to life expectation and the reform of the

housing market (including limits to the fiscal mortgage allowance). As a consequence, the long term sustainability balance has improved from a deficit of 4.5% in 2010 to a surplus of 0.7% in 2015.

Following the crisis, Slovenia has been following a strict consolidation policy that was heavily influenced by EU fiscal rules and Excessive Deficit procedures, but also largely endorsed by the IMF as a sign of credibility. The initial policy response was slow, as pensions and health spending proved difficult to reform. Fiscal consolidation only began in earnest around 2012 with the Public Finance Balancing Act under a new centre-right coalition (Verbic, Srakar, Majcen, Čok 2016). Consolidation was achieved by a mix of longer term measures (including a VAT increase, pension reform and debt management operations) and more temporary interventions (one-off freeze of the wage bill, pension and other social transfer indexation, as well as a squeeze on non-EU-financed public investment) (IMF 2017). As a consequence, the deficit was halved from around 6% of GDP in 2009 to below 3% of GDP in 2015. Economic growth resumed in 2014 and in 2015 the country exited the excessive deficit procedure of the EMU. However, longer term risks to the fiscal position remain. In particular, Slovenia faces one of the most serious aging problems in the EU. Barring pension and public health reform, the debt ratio has been forecast to reach 240% of GDP in 2060 (IMF 2017).

3. The institutional setting for the work of the Budget Office

3.1. The organisational setting

UK

In the UK the responsibility for spending oversight rest with Her Majesty's Treasury (HMT)[12]. HMT is a unified "finance and economics" ministry. It co-ordinates all economic and financial policy of the central government. It has relative extensive formal and informal authority over public financial management. It is widely seen as a powerful institution. The Chancellor of the Exchequer (Minister of Finance) has a key position in the cabinet. Through its task of spending oversight, HMT has a direct relationship with all parts of government, giving it a genuinely holistic view of the government's position. The Chancellor is assisted by the Chief Secretary to the Treasury: a second HMT cabinet minister responsible for public spending. HMT staff are typically seen as the "brightest and best" in Whitehall (the administration of central government) with strong intellectual capability (Welham 2016, Allen 2014). As of March 2016, the "core" HMT institution (i.e. excluding the executive agencies under HMT control, such as the Royal Mint and the Debt Management Office) comprised of 1 297 FTEs (HM Treasury 2016).

At the civil service level HMT is led by the Permanent Secretary who chairs the Executive Management Board. The Board consists of directors of support service directorates (Finance Director, Director Corporate Services) and five Directors General, namely for: 1) Economic Affairs, 2) General Tax and Welfare, 3) Financial Services 4) Public Spending and Finance and 5) International Affairs and EU. In addition, the Director of Strategy, Planning and budget, who reports directly to the Permanent Secretary, participates in the Executive Management Board.

The staff of HMT is organised in "groups" (formerly directorates). Groups are led by a director and comprise a number of teams working on similar issues. The Director-General of Public Spending and Finance leads three groups, namely 1) Public Spending, 2) Public

Services and 3) Fiscal Strategy, Funding and Debt Management and Monitoring Fiscal Position.

A remarkable fact about the organisational setting of the budget process in the UK is that there is no "budget office" as such. Budget analysts in the sense of this paper are dispersed and work throughout a number of "spending teams". There are around 20 spending teams. Each team is responsible for expenditures in one or more ministries. Currently there are 53 ministries, but many are (very) small and spending is highly concentrated in some 15 large ministries. The spending teams are divided over 5 of HMT's groups. About half of them belong to the Public Services group and the Public Spending group under the Director-General of Public Spending and Finance, but others belong to other groups under other Directors General. For instance, the "Personal Tax, Welfare and Pensions" group contains the spending team that oversees the (significant) expenditures of the Department (ministry) of Welfare and Pensions and reports directly to the Director General of General Tax and Welfare.

Each spending team consists of 2-3 officials in charge of spending oversight of the ministry as a whole, including the "Spending Principal" whose main responsibility is spending oversight. Typically working alongside the Principal are a number of sector specialists. For example, in the education focused spending team there will be a Spending Principal, working alongside sector specialists looking at higher education, schools funding, and early years education. In the transport focused team, the Principal will work alongside the railways branch and the roads branch of the team.

Principals are mid-level officials. There is a Principal's network that meets monthly and receives particular communications. Principals are supported by a junior official who deals with the "mechanics" of the estimates process (main estimates, supplementary estimates, formal financial reporting through ministerial accounts). The number of sector specialists working alongside the Principal is dependent on the size and complexity of the ministry's expenditures. For large ministries there may be up to 10 HMT sector specialists in salary scales from entry-level graduate to mid-level. The sectoral specialists may carry out some function as "budget analyst" in the sense of this paper (for example reviewing and understanding the financial situation of their sector, understanding future cost drivers, etc.) and they will also represent HMT in discussions with the line ministry about strategic policies that are not directly related to expenditures. In total the number of officials working in spending teams amounts to 160 (being 20 spending teams of 8 officials on average, with some form of spending oversight in their responsibilities, although this can vary between teams quite substantially).

Apart from the spending teams, two other units play a crucial role within HMT's oversight of public spending, namely the General Expenditure Policy (GEP) team and the Government Financial Reporting (GFR) team. Both are located in the Public Spending Group.

The GEP team (around 12 FTEs) is ultimately responsible for ensuring that HMT's public spending policies are on track. It briefs the permanent secretary each month on the progress of public spending and holds the cross-government spending risk register. GEP must be consulted on and agree on all submissions to Cabinet with a public spending implication. GEP leads the monthly meeting of Principals.

The GFR team (around 26 FTEs) is responsible for government reporting and accounting policy. They have particular responsibility for co-ordinating and submitting to Parliament the Main and Supplementary Estimates (the UK Supply and Appropriation bills covering

Main and Supply Estimates). In practice, spending control in the UK operates two tracks: 1) the mechanics of pulling together estimates, supplementary estimates, overseeing publication of accounts, etc. This track is ran by GFR and GEP working with mid- and junior-level spending team staff (under the supervision of Principals); and 2) the policy aspects of spending supervision, where issues of political decisions, in-year spending control, anticipation and resolution of fiscal risks and senior-level relationships with ministries are managed. This track is ran by mid- to senior level Principals, sector specialists and GEP.

The organisational setting of public financial management has changed in the UK with the establishment of the Office of Budget Responsibility (OBR) in 2010. OBR is an independent economic forecasting institution responsible for generating independent economic and fiscal forecasts that are factored in the HMT-led budget process. A part of its staff came from HMT, where the forecasting task was located previously. Since the arrival of OBR, HMT relies on OBR forecasts for its budgetary planning tasks. OBR also performs cost-benefit analysis and economic scenario studies at the request of the government.

The Netherlands

The Ministry of Finance is led by two politicians: the Minister and the State Secretary. The State Secretary is responsible for tax policy and the tax service. The Minister is responsible for the budget, the financial markets and international financial relations.

At the civil service level, the ministry is led by a Secretary General and four Directors General. The Secretary General has overall responsibility for the ministry and is tasked in particular with the operational management of the ministry, including the supervision of support service directorates (Financial and Economic Affairs, Operational Management, Legal services, Government Audit Service, Domains; the latter two work for the government as a whole). In addition the Directorate of General Financial and Economic Policy reports directly to the Secretary General.

The four Directorates General are those of: 1) Treasury, 2) Budget, 3) Fiscal Affairs, and 4) the Tax Service. The first three Directorates General and the directorates under the Secretary General except the Domains employ around 1 400 FTE's in total and sit in the main building of the Ministry of Finance in The Hague. The Tax Service and the Domains employ 35 000 FTE's and are spread over the entire country.

The Directorate General of the Budget is divided in two directorates: Budget Affairs and the Inspectorate of Finance. Budget Affairs (55 FTE's) is responsible for the organisation and regulation of the budget process and advises the minister on general aspects of budgetary policy. Budget Affairs has five divisions, namely for 1) Budget Policy, 2) Budget Infrastructure and Administration, 3) Governance, Costing and Administration of European Means, 4) Government Accountancy Division, and 5) the Academy of Finance, Economy and Operational Management.

The Inspectorate of Finance (79 FTE's) advises the minister on the budgetary proposals of line ministries, maintains contact with the line ministries, serves as the "ears and eyes" of the Minister of Finance across the public sector and provides support to the Minister in all stages of the budget process. All budget analysts in the sense of this paper belong to the Inspectorate. The Inspectorate consists of 7 sections. Each section supervises one or more ministries (there are 11 ministries, including the Prime Minister's Office). The Inspectorate

has two staff bureau's: one for horizontal co-ordination (Bureau Policy Preparation) and one for strategic analysis (Bureau Strategic Analysis).

Each section of the Inspectorate consists of 5 to 10 officials. Each section has a head and deputy head that have overall responsibility for the financial supervision of the line ministry. The other section members are budget analysts with responsibility for a particular domain of sectoral policies. The agency heads are mid-level officials, the budget analysts are in salary scales from entry-level graduate to mid-level.

In the Netherlands economic forecasting for the government and the Ministry of Finance is a task of the independent Netherlands Bureau for Economic Policy Analysis (*Centraal Planbureau*).

Slovenia

At the political level the Ministry of Finance is led by a minister and four state secretaries, one of whom is in charge of the state budget and public accounting. The Minister is supported by a group of 14 staff known as the "cabinet", including politically appointed staff (around 5). This unit provides administrative support in the area of public relations among other functions.[13] Staff in this office also manage the co-ordination of briefing for weekly government sessions.

The ministry is led by a Secretary General and 6 Directors General on the civil service side. The Secretary General is the administrative head of the ministry and oversees support services such as human resources and legal services. The Directors General lead directorates for: 1) the Financial System, 2) the Treasury, 3) Tax and customs, 4) Public Property 5) Public Accountancy and 6) the Budget.

The Ministry of Finance employed 444 FTEs in June 2017. The Budget Directorate comprised 75 FTEs. It is divided into five departments namely for: 1) Budget Systems and Development (8 FTEs), 2) Management of EU Funds and Cohesion Policy (21 FTEs), 3) Local Communities (8 FTEs), 4) General Government Analysis and Economic Policies (7 FTEs) and 5) Budget (28 FTEs).

The Budget Department plays a lead role in the budget preparation and oversight and was the focus of the interviews. Other departments play supporting or more specialist roles in both budget preparation and execution. The Department for Budget Systems and Development, for example, plays a co-ordinating role through the management of the budget preparation and execution processes and systems, but also oversees capital projects, funded from the state budget. The Department for General Government Analysis and Co-ordination of Economic Policies focuses mainly on the development of the Stability Programme and the National Reform Programme, and is the custodian of the Budget Memorandum, fiscal framework and budget ceilings. It also conducts analyses of general government expenditure, which includes the large pensions and health funds that are not formally part of the state budget. The Department for Local Communities oversees intergovernmental fiscal transfers, supports the preparation of municipal budgets, and advises on local government borrowing.

In total the Budget Department is responsible for managing 15 ministries, including the office of the prime minister, and around 25 other "proposers of financial plans". They include a total of around 170 "direct budget users" that are financed by the state budget. Direct budget users keep their own financial administration and report directly to the Ministry of Finance on commitments and payments, but only the proposers of financial

plans negotiate their budget directly with the Ministry of Finance (the other ones negotiate their budgets with proposers of financial plans, typically the responsible line ministries).

For organisation purposes the various direct budget users are grouped under 45 spending units supervised by Budget Co-ordinators. Each Budget Co-ordinator is responsible for the supervision of one or more spending units or a dedicated area of spending, such as the civil service payroll. The budget co-ordinators are budget analysts in the sense of this paper. Each of the 45 spending units are supervised by a primary co-ordinator and an alternate co-ordinator, who is often a primary co-ordinator for another spending unit (or set of spending units). There are also two small teams in charge of budget execution (3 employees) and relations with EU budget (2 employees).

To illustrate these arrangements, the Ministry of Agriculture is overseen by an experienced Budget Co-ordinator and a relatively new alternate. The primary Budget Co-ordinator is also responsible for monitoring 3 other proposers of financial plans, namely the Constitutional Court, the Court of Auditors and the Anti-corruption Commission, as well as providing broader advice on receipts from the EU Common Agriculture Policy.

For larger portfolios, the Budget Co-ordinator may take on fewer proposers of financial plans. The Budget Co-ordinator for the Ministry of Labour, for example, has responsibility for managing 2 proposers of financial plans: the Ministry of Labour (a large ministry with a budget equal to nearly 15% of the state budget) and the smaller Government Office for Equal Opportunities. Similarly, the primary Budget Co-ordinator for the Ministry of Infrastructure acts only as an alternate for 2 other proposers of financial plans.

Macroeconomic forecasts are provided by an independent forecasting bureau (the Institute of Macroeconomic Analysis and Development, IMAD). These forecasts are used by the Department for General Government Analysis and Co-ordination of Economic Policies to develop the fiscal framework, budget ceilings and Budget Memorandum, in consultation with the Budget Department. In 2017 the Parliament has also established a Fiscal Council, as required by the new Fiscal Rule Act. One of the tasks of the Fiscal Council is the assessment of the fiscal framework that is presented to Parliament.

3.2. The procedural setting

UK

In the UK there are two distinct processes of budget preparation. The first is an exercise that takes place with intervals of two, three or four years and that leads to a medium term expenditure framework. This is called the "spending review". The second is the annual budget process that leads to the submission of estimates for parliamentary authorisation and the subsequent management of this expenditure.

Spending Review

The expenditure framework process was established in 1998 and is more important for final outcomes than the annual budget process, since it determines the expenditure ceilings for all ministries (53) for a number of years. Each ceiling is subdivided in five sub-ceilings, known as control totals, namely for current discretionary (current DEL[14]), capital discretionary (capital DEL), current mandatory/demand-led (current AME[15]), capital mandatory/demand-led (capital AME) and administrative spending (the amount of recurrent DEL that may be spent on running the ministry's own operations)[16]. DEL control totals are set net of retained revenue[17]. This implies that the Spending Review process

largely determines the aggregate fiscal constraints and the allocation of resources for the medium term. Furthermore, the process also tries to establish the effectiveness and efficiency of certain areas of new and existing expenditure, and make decisions on expenditure priorities accordingly. It can thus be said that, as far as HMT is concerned, the key budget functions of aggregate control, allocation and operational control are largely concentrated in the periodic Spending Review exercise rather than in the annual budget process. This is not to say that these functions play no role anymore in the annual budget process, but during this stage delivery of the goals of aggregate control, allocative priorisation and operational control of effectiveness and efficiency is fulfilled primarily though the internal budget process of the line ministries within the boundaries of the pre-existing expenditure framework (Kraan 2017).

Line ministries are expected to produce a wide range of analytical products for submission to HMT. In Spending Review 2010, ministries were asked to provide 70 pieces of information to HMT (National Audit Office, 2012). In Spending Review 2015 ministries were asked to describe 20% and 40% cuts to certain budgets, and explain the performance implications of such reductions in budget. In the same spending review, ministries were also asked to produce cost-benefit analysis (using common guidance) for all proposed capital expenditure, allowing HMT to have a cross-government view of the relative value for money of various investment projects. Similar cross-government analytical reviews were undertaken on public sector pay.

The ultimate goal for HMT during a spending review process is to 'settle' with the ministry. This involves agreeing a set of high-level budget aggregates (the control totals). The process also involves agreement on priority policy reforms that the analytical work to support the spending review has highlighted. The spending control totals and agreed policy reforms will be jointly agreed and recorded in a 'settlement letter'[18]. The settlement letter spells out the formal agreement between the ministry and HMT on future budget allocations and policy reforms. Spending Principals noted that they all had the settlement letter close at hand in their engagement with the ministry and refer to it during the 'in-year' spending control period that follows the Spending Review.

Annual budget process

The work of the budget analyst related to the annual budget cycle partly consists of ongoing activities and partly of activities connected to the documents that HMT annually submits to Cabinet and Parliament.

Ongoing activities are largely based on data generated by the ICT system OSCAR. This system contains backward-looking information on actual expenditures and forward-looking forecasts of planned expenditure. It covers the current budget year, four years previously and forward years to the end of the spending review period (currently to 2018/19) and further for capital DEL (up to 2022). By the 8th of each month departments must update their OSCAR figures (backward looking if necessary[19], but mainly their forecasts to the end of the year and beyond). The classification of OSCAR is more detailed than the level of control totals. Ministries can decide themselves how much detail they want to give, but HMT may require data on certain segments or sub-segments[20]. GEP set the control totals on OSCAR in line with medium-term budgets agreed at the Spending Review.

AME forecasts are now provided by OBR (having been previously produced by HMT itself). At the spending review, OBR's AME forecasts are incorporated into the relevant ministerial control totals. OBR update their AME forecasts twice a year (and HMT can formally request they provide more regular updates if necessary). Revised AME forecasts

for the latter half of the financial year are included in the Supplementary Estimates as needed. In practice, this means that DEL totals become the 'residual' between 1) HMT's goal for total expenditure and 2) OBR's estimates of AME expenditure. OBR provide their 'central estimate' for AME expenditure and HMT uses this as the AME control total. In practice, AME spending frequently comes in under this central estimate, so there is an 'informal' buffer on spending built into the AME figures.

HMT does consider AME and DEL differently. DEL totals, in the view of HMT, are fixed and there is little reason why they should be breached. There exists a tiny "reserve" in the budget for unexpected instances of overspending on DEL control totals. Ministries must formally apply to the Chief Secretary to the Treasury for use of the reserve, and if a claim is approved, then the supplementary estimates will adjust the ministry's control totals upwards to reflect the approved reserve claim. However, applications to the reserve are relatively infrequent. One respondent added that there is no such thing as a 'DEL overspend', there is only 'insufficient spending prioritisation' within a ministry, given the more discretionary nature of DEL spending. HMT firmly resists increasing DEL totals through reserve claims and, unless strong evidence to the contrary can be produced, tends to see such applications as evidence of spending control failure. AME is different given its unpredictable and demand-led nature. If AME spending is running ahead of forecast HMT is more lenient: the presumption or first choice response of HMT is to reduce the relevant ministry's DEL accordingly. However, this is done on a case by case basis as some drivers of AME spending cannot reasonably be considered within the ministry's control. In the latter case, HMT may 'rebalance' expenditure from AME underspends elsewhere in government and protect a ministry's DEL totals. Decisions on whether to do this would also depend on the reason for AME overspends-whether it was foreseeable and preventable, or an unexpected change. This provides incentives for ministries to actively and carefully manage AME spending where they can. DEL and AME control totals are also treated differently in terms of savings. Any in-year 'underspends' in DEL are automatically recycled by the ministry in that they can use the savings they make to fund other DEL priorities automatically without needing to ask HMT's permission. Any AME underspend (i.e. the actual spending outturn runs below the OBR forecast) is 'taken back' immediately by HMT and there is no presumption that AME savings can be passed on to the relevant ministry as a corresponding DEL increases.

The annual budget cycle has been changed in recent years. It is currently structured around the budget documents that go from HMT via the Cabinet to Parliament. The fiscal year in the UK runs from 1 April to 31 March. By voting to approve the Estimates, Parliament authorises ministerial expenditure within the five control totals. This means that Parliament exercises little authority over detailed levels of expenditure, such as economic groups (investments, subsidies, grants to local government, etc.) or programme groups (separate policy instruments such as transport subsidies or welfare benefits)[21].

Table 2 summarises the annual budget cycle on the basis of the main budgetary documents

Table 2. Budget Calendar in the UK (fiscal year 1 April to 31 March)

Date	Year	Document	To	Based on macro-economic update
Budget preparation				
Spring	t-1	Spring Statement[22]	Parliament	
Autumn	t-1	Budget[23]	Parliament	X
Autumn	t-1	Financial bill[24]	Parliament	
April – July	t	Estimates (Appropriation) Bill published (April); subject to Parliamentary scrutiny (May/June) and formally introduced and passed (July)	Parliament	
Budget execution				
Feb-March	t	Supplementary Estimates (Appropriation) Bill published (Feb); and formally introduced and passed (March).	Parliament	X
Financial reporting				
June	t+1	Departmental Accounts[25]	Parliament	

The Netherlands

In the Netherlands, like in the UK, there are two distinct budget processes of budget preparation. The first takes place at the start of the four-year cabinet period and leads to the establishment of the expenditure framework; the second is the annual budget cycle. Like in the UK, the first is the most important process in terms of aggregate fiscal control, allocation and operational control.

The expenditure framework

At the start of a new cabinet period a fixed ceiling is agreed for net expenditure (gross expenditure minus non-tax revenue) for each of the four years of the cabinet period. The ceilings are based on a medium term GDP and revenue forecast of the Netherlands Bureau for Economic Policy Analysis. The ceiling is fixed in real terms, but takes into account the expected wage and price developments in the public sector (the nominal total is translated back to a real total by the GDP deflator). The fixed expenditure framework allows for medium term predictability on the level of expenditures, regardless of GDP development. This provides for administrative tranquility and makes it possible to achieve automatic stabilisation via the revenue side of the budget.

The basic principle of the framework is that all expenditures and non-tax revenues that are relevant for the fiscal balance are included in the ceilings (non-tax revenues as negative items). This implies that compliance with the framework leads to control of the fiscal balance, which is important for the control of the public debt and also for compliance with the provisions of the Growth and Stability Pact of the EU. Over the period from 2001 to 2017, the framework included 91% on average of the total net expenditures of the central government. Large items that are currently not included are the revenues from gas extraction (non-tax revenues) and the interest expenditures.

The total ceiling is divided over three sectors: social security, public health and budget in narrow sense. Budget in narrow sense is divided over all (11) ministries. As a consequence every minister has a fixed budget over the entire cabinet period. The maintenance of the framework is based on the principle that every minister must see to it that her/his ceiling is complied with in every year of the cabinet period. For this purpose the minister can reallocate resources between line items both in the budget year and in future years, if and only if all reallocations add up to zero in every year. There are some 10-20 line items in

each ministerial budget, including at least one for administrative costs (intermediate consumption and compensation of employees for the ministerial administration). Most line items concern programmes or separate policy instruments of a programme.[26]

The expenditure framework is complemented by a tax revenue framework. The principle of the revenue framework is that only budgetary consequences of tax policy changes (tariff or base adjustments) have to be compensated by other tax revenue measures. Fluctuations as a consequence of other developments (endogenous changes) are not compensated and flow into the fiscal balance. This leads to automatic stabilisation- in good times, tax revenues increase and in bad times they decrease. The revenue framework is fixed at the time of the Cabinet formation. The Netherlands Bureau for Economic Policy Analysis calculates the development of tax revenue on the basis of the coalition programme, taking into account both policy changes and endogenous developments. Once the framework is fixed, new tax policy changes, not foreseen in the coalition programme have to be compensated. Shifts between years are possible- the tax framework must close over the entire Cabinet period.

The framework process starts more than a year before parliamentary elections. Actions that take place in the running up to the elections are:

- Advice of the Study Group Budget Policy about adjustments of the expenditure and revenue framework and about the development of the fiscal balance in the upcoming Cabinet period[27].
- The Netherlands Bureau for Economic Policy Analysis publishes a medium term forecast for the upcoming Cabinet period, including tax revenues and price and wage developments.
- Political parties may submit their policy platforms to the Netherlands Bureau for Economic Policy Analysis, which calculates their macroeconomic impact and their impact on the budget (both expenditures and revenues). Subsequently, an iterative process ensues in which the parties can adjust their platforms if they are not content with the outcomes and have the adjusted platform recalculated. When all platforms are definitive the Bureau publishes the final results in a public document that is often used during the electoral campaign.

The annual budget cycle

Like in the UK, the work of the budget analyst mainly consists of ongoing activities and activities related to the documents that the Ministry of Finance sends to Cabinet and Parliament.

IBOS is the ICT system for budget preparation in the Netherlands. It contains the estimates at the line item level for all expenditures in the budget for six years (current year, upcoming budget year and four out-years). The estimates have policy status not only for the current and upcoming budget year but also for the out-years (the word “estimate” is somewhat misleading in this respect). They represent hard agreements on budget policy between the Ministry of Finance and the line ministries.

IBOS is updated 6 times per year. For that purpose the 11 line ministries have to submit all changes in the line items of their budget for each of the 6 years included in the system and the relevant sections of the Inspectorate have to approve all changes on the basis of the budget rules[28]. The most important budget rules are those that require compensation of all increases, regardless the causes of the increase, and that prohibit that an autonomous

increase (based on a new policy) is compensated by a windfall (not based on a new policy). For this purpose all changes in the system have to be qualified as autonomous or endogenous. The line ministry fills in the nature of the change, and the Inspectorate has to approve the qualification. The budget rules imply that new expenditure measures can only be compensated by new savings measures and that windfalls can only be used to compensate setbacks (they cannot be used to pay for new policies). Moreover the compensation has to proceed parallel in time with the expenditure increases: structural expenditure increases cannot be compensated with temporary savings measures. However, the Ministry of Finance can allow intertemporal compensation (compensation in a later or earlier year) in exceptional circumstances if it can broker temporary inter-ministerial compensation in the year(s) when no compensation is offered. Compensation within the ministerial ceiling is called "specific compensation".

If a minister feels that they cannot offer specific compensation, they can ask the Ministry of Finance for inter-ministerial compensation or "general compensation". This may happen in case of a new major policy initiative that has not been foreseen during the Cabinet formation. Examples are the large reallocation in favour of the Ministry of Security and Justice that took place in 2016 as a consequence of the perceived security risks flowing from terrorist threats and the reallocation in favour of the Ministry of Development Assistance in 2015 in order to handle the increased inflow of refugees. In these cases the Minister of Finance has to broker the inter-ministerial reallocation packages. The Inspectorate plays a crucial role in the composition of these packages by proposing the savings measures that are feasible in the ministries that have to provide the compensation.

In the Netherlands, the budget year coincides with the calendar year. Apart from the ongoing activities related to IBOS, the work of the budget analyst is conditional to the required input to the documents that the Ministry of Finance sends to the Cabinet and the Parliament. The budget calendar is shown in the Table 3.

Table 3. Budget calendar in the Netherlands

Date	Year	Document	To	Based on macro-economic update
Budget preparation				
April	t-1	Framework Letter	Cabinet	X
July	t-1	July Letter (expenditure totals)	Cabinet	X
August	t-1	August Letter (revenue side of the budget)	Cabinet	X
September	t-1	Budget Memorandum and Budget Law	Parliament	
Budget execution				
June	t	Spring Memorandum/ Supplementary Budget Law	Parliament	(X)[1]
October	t	Autumn Memorandum /Supplementary Budget Law	Parliament	(X)[1]
Financial reporting				
May	t+1	Financial Report (accounts) and Final Budget Law	Parliament	

Note: [1]There are three macro-economic updates that are used in the letters of the Ministry of Finance (Central Economic Plan in the Framework Letter, Queens Macroeconomic Explorations in the July letter, and Macroeconomic Explorations in the August letter). The same updates are also reflected in the documents on budget execution (Central Economic Plan in the Spring Memorandum, Macroeconomic Explorations in the Autumn Memorandum)

Slovenia

The country runs a unique budget system. Each year a budget is approved covering two years (t and t+1) and a longer-term development plan (t until t+3). This practice was introduced in the late 1990s to provide clearer authorisation for spending when coalitions were fragile or took time to form after elections. In theory the main focus of the budget discussions should be on year t+1 (Kamnar 2013). In practice however, revisions to the budget are common and attention during budget negotiations usually focuses on adjustments to the allocations for year t (Kraan and Wehner 2006 2005)[29]. There have also been deviations from this practice in election years, when the t+1 budget is not prepared and the previous years' estimates are not adjusted (Kamnar 2013).

The State Budget is divided into three parts: 1) a general part, showing revenue and expenditure aggregates by economic classification, 2) a special part showing expenditures by administrative and programme classification, and 3) a plan of development projects and activities together with the sources of financing. Historically, the special part has also included information on economic line items (beneath the sub-programme level) but this was dropped with the move to programme budgeting. As a result, the total number of line items in the budget presented to Parliament has fallen from around 8 500 to below 500 (OECD 2014).

In Slovenia budget preparation runs from January to September and is broadly divided in two phases[30]. The first phase runs from January to June and sets the broad strategy for the budget including medium term fiscal planning. In this period Parliament approves the fiscal framework for budget preparation and the Government decides on initial ceilings and policies for inclusion in the Budget Memorandum[31]. In the second phase line ministries develop detailed budget estimates and the draft budget and Budget Memorandum is submitted to the Parliament (no later than 1 October). This period is characterised by a series of negotiations between the proposers of financial plans and the Ministry of Finance.

The first phase of budget preparation

In this phase there are two major sessions of the government dedicated to the budget. The first budget session focuses on the fiscal framework and the Budget Memorandum, the second on the ceilings for the upcoming budget.

In recent years the first phase of budget preparation has changed under the influence of the European Union, arguably more so than in Western European countries[32]. EU standards have been codified in the Fiscal Rule Act, adopted in 2015. This act integrates more firmly than previously, the preparation of the National Reform Programme for the European Union into the budget process. The Act also introduced the new requirement that the fiscal framework must be approved by the National Assembly prior to the submission of the Stability Programme to the European Commission at the end of April.

Under this new process, the Slovenian Parliament approves a Decree on the Fiscal Framework proposed by the Government. This Decree sets limits for a period of four years on the fiscal balance and gross nominal expenditures for general government, and sub-limits for central government, local government and health and pension funds at the start of the annual budget process. These limits must be consistent with the Fiscal Rules Act and are used as a basis for the fiscal strategy in the Stability Programme and draft budget.

The Government discussion on the Decree on the Fiscal Framework takes place between March and April, concluding with the First Government Session on the Budget. In the Ministry of Finance, the Department for General Government Analysis and Co-ordination

of Economic Policies prepares the limits for the Decree on the Fiscal Framework. According to Fiscal Rule Act the Cabinet has to adopt and transmit the fiscal framework to the National Assembly and the Fiscal Council no later than 20 days before the deadline to submit the Stability Programme to the European Commission (deadline is 30th April). These ceilings are more 'binding' than used to be the case before the adoption of the Fiscal Rules Act, and officials in the Ministry of Finance believe that the EU regulations have reinforced the hand of the MOF by fixing the 'big numbers' ahead of the negotiations with line ministries.[33] However, the limits for the years after the upcoming budget year (t+1 to t+3) can be revised in the next year.

Once the fiscal framework is approved, the Government usually holds several ″second″ budgetary sessions in order to set ceilings for each proposer of a financial plan in the central government. For that purpose the Ministry of Finance starts an internal operation to break down the aggregate expenditure limits for the upcoming budget (years t and t+1) in "ceilings" for proposers of financial plans. This operation is described by respondents as a process of developing "spontaneous" and "target" budget scenarios. Spontaneous scenarios estimate the trajectory of ongoing spending trends. They are developed from the bottom-up starting at the line item level, by rolling forward the past year's expenditures and incorporate any known changes in legislation along with the macroeconomic indicators provided by IMAD. This is then matched with the top-down limits of the fiscal framework. In effect this works by giving first priority to statutory payments (wages, interest, pensions, etc.) and applying general 'assumptions' to discretionary spending in order to fit the ceilings into the fiscal framework.

There is no systematic exploration of tax alternatives and spending or saving options prior to the Government decision on the ceilings. Recent attempts to introduce spending reviews with support from the IMF (see Olden, Harris, Sayegh, Last, Uregian 2015) have not yielded much political traction. Instead, the Ministry of Finance relies on the knowledge of its officials to propose savings options as the need or opportunity arises. Initial negotiations with budget users are also held to support this "translation" from top-down expenditure limits into annual budget ceilings, policies and programmes.

From a more political perspective, the main policy priorities are generally known early in the budget cycle. Alongside other policy frameworks (such as Strategy of Development in Slovenia and the Programme of State Development Priorities and Investments) political priorities are defined in the Coalition Agreement. Typically, the Minister of Finance will be aware of the top three or four priorities of the Coalition Agreement and will ensure these are reflected in the budget ceilings. To ensure further support for priorities, cabinet documents may also be circulated more informally to relevant political groups such as party leaders. Managing budget negotiations at this stage is highly demanding and the dates of the second government budget sessions can vary from dates set in legislation.

The second phase of budget preparation

The adoption of budget ceilings for the proposers of financial plans by the Government (typically around June) begins the next phase of budget preparation: the development of detailed financial plans. During this period the proposers of financial plans prepare budgets (together with explanatory notes) for each direct budget user under their responsibility at the sub-programme and project level. The financial plans cover four years (t to t+3)[34]. The deadline for this process is around 15 August though it varies from year to year (Kamnar 2013).

Though respondents believe the ceilings adopted by government in the second budget session are reasonably binding, they are not definitive and negotiations in August or September may change them, sometimes substantially. Line ministries will often submit requests for additional resources, particularly more powerful ministries. These vary depending on the politics of each coalition and public perceptions of certain policies and have often included the Ministry of Education, Ministry of Labour and even the Ministry of Finance itself. The Ministry of Finance aims at this phase to enforce the aggregate ceilings of the fiscal framework included in the Decree on the Fiscal Framework and request in excess of the ceilings from the proposers of financial plans will likely lead to (re-)negotiations with other proposers of financial plans.

Budget submissions are made through the budget preparation system (APPrA)[35]. Though proposals can be in excess of the ceilings from proposers of financial plans during the draft stage, the system ensures the budget cannot be "closed" until spending is within the final limit set by the Ministry of Finance. This system links the Budget Co-ordinator and the finance division in the line ministry, which is the user of APPrA in the line ministry, reinforcing an already close institutional link.

Negotiations proceed first at the level of civil servants, then at the level of ministers and the government, leading to a final decision on allocations, usually in September. During the first stage, Budget Co-ordinators talk daily to their counterparts in line ministries (almost always at the premises of the Ministry of Finance) on the content of the financial plan. There would also be regular interactions between the finance division of the line ministry and budget staff responsible for managing investment projects in the Systems Development Department. Both sides may go back to their ministries to request instructions, but in the initial stage the interaction is mainly with the finance division of the ministry, because "if we don't understand these [financial issues] we can't go further." In this process there is considerable autonomy of Budget Co-ordinators to resolve issues with their counterparts in the line ministry. Respondents suggested that the Ministry of Finance is often seen in these discussion as the "higher authority" and line ministries may yield because they feel they cannot win by holding on to their views. Nevertheless it is usually the case that a small number of issues remain unresolved.

Any remaining issues are discussed in formal bilateral meetings between the Ministry of Finance and a delegation of the line ministry. Ministerial meetings are generally reserved for ministries with "open budgets" and substantive issues that cannot be resolved at a technical level. For larger ministries or complex issues, there may be 3 or 4 of such meetings in the course of budget preparation. These meetings were described by some respondents as largely unproductive or inefficient. In many cases, solutions would ultimately be brokered by the Minister of Finance with the sector minister over the phone. In a few exceptional cases the minister might also refer the issue on to the prime minister, the government, or the coalition leaders.

The final draft budget is submitted to Parliament by the end of September. Parliamentary amendments that are accepted are returned to Parliament in the supplemented draft budget along with other amendments proposed by the government, responding to updated economic forecasts following the release of IMAD's autumn forecast or other significant developments such as public sector wage settlements. The budget is finally enacted through Parliament's approval of the Law on Budget Execution, usually in November. This law includes procedures for amending the budget during execution without supplementary budget laws, within designated limits (lower limits for budget users and higher limits for the Government).

There are currently also reserve options for reallocation without resort to supplementary laws. These are a general reserve and the dedicated reserves for exceptional events (currently two: for migration and natural disasters). Most claims would be against the general reserve. The government decides on the use of the reserves at the proposal of the Minister of Finance.

After the parliamentary adoption of the budget the Ministry of Finance is generally willing to accept changes, regardless of whether they require supplementary laws, as long as they can be financed through reallocation within the available budget of the line ministry. Savings in the investment budget in order to finance additional spending is one method of doing this. This has also been a solution for finding resources to fund unforeseen expenditures such as the higher increment awarded to public sector workers shortly before the budget was finalised in 2016. However, the government is reluctant to reduce wages, transfers and pensions as these are both statutory payments and politically important. Supplementary budgets and restrictions on commitments have also been used to realise savings during budget execution with the aim of meeting agreed or revised fiscal targets[36].

There is no specific timetable for supplementary budgets, but typically the Ministry of Finance will consider preparing a supplementary budget in the early summer (around July). This "rebalanced" budget will take into account changes in the macroeconomic projections from IMAD's spring forecast and updated revenue outturns for the first few months of the year. Table 4 summarises the budget calendar.

Table 4. Budget calendar in Slovenia

Date	Year	Document	To	Based on macro-economic update
April	t-1	Draft Budget Memorandum and Fiscal Framework	Government (first session)	X
		Decree on the Fiscal Framework	Parliament	
June	t-1	Budget ceilings	Government (second session)	
September	t-1	Draft Budget Memorandum and draft budget	Parliament	
October-November	t-1	Supplemented Budget Memorandum and Law on Budget Execution	Parliament	X
Budget execution				
July	t	Supplementary budget [1]	Parliament	(X)[2]
July	t	Mid-year report on budget execution	Parliament	
Financial Reporting				
March	t+1	Draft annual accounts	Parliament	

Notes: [1]Not every year, depending on necessity; [2]The same IMAD update of April used in budget preparation

4. The role of the budget analyst

4.1. Key tasks

UK

Tasks related to the Spending Review cycle

The spending teams act as an intermediary between HMT's central Spending Review team and the line ministry. In this role they operate – alongside their ministerial colleagues – as *political managers* of the process. Ministers must ultimately agree spending settlement and the attitude and disposition of line ministers will matter in determining whether the settlement is agreed, or disputed. HMT and the ministry aim to keep lines of communication open between officials on political developments to reduce the chance of a high-level political clash.

The Spending Review process naturally builds in incentives towards a more adversarial relationship between the line ministry and HMT. Respondents noted that the current fiscal situation sharpens the 'zero sum' element of budgeting. With the UK experiencing a sharp relative reduction in public spending and some ministries facing steep budget cuts, the discussions on spending allocations are particularly challenging. This contrasts with Spending Reviews in the earlier part of the century where the discussion was more about how to allocate growing shares of public expenditure between ministries, making it possible to please more people.

Tasks related to the annual budget cycle

The following tasks are carried out most regularly:

- Review of monthly OSCAR figures (provided by the ministry through HMT/GEP).
- Review of monthly ministerial internal management information (provided by the ministry).

GEP and the Principal are responsible for reviewing the monthly updated figures on OSCAR to broadly monitor that: 1) spending for the previous month just loaded is in line with that month's forecast (and to challenge the ministry where it isn't); 2) spending forecasts to the end of the year are in line with agreed control totals[37] (and to challenge the ministry where it isn't); and 3) any particular changes, agreements or revisions in control totals and agreed spending are reflected (e.g. if a ministry has been granted additional funding). The first reaction to anything that looks unexpected will consist in the Principal contacting the ministry informally to raise questions. GEP undertakes most of the basic analysis and proactively raises questions with the Principal where necessary, rather than the Principal "pouring over the numbers" to try and make sense of them.

All respondents pointed to the importance of their monthly copy of a ministry's internal financial management information pack for 'live information' of what is happening in detail with ministerial spending. This pack is usually intended for Directors or Managing Directors within the line ministry itself. This, combined with the ongoing personal interactions with the ministry's finance staff, formed the basis of their knowledge about the broader spending position. The analytical task of the Principal is to review the pack, assess its internal validity and consistency, and review the information for any points/issues/concerns that the ministry has not identified (or sufficiently identified),

including HMT priority spending areas. Any further questions/analysis/issues would likely be directed to the ministry, who would be asked to provide further information on the points raised by the Principal. The information provided is broadly trusted, in the sense that it is not expected that ministries would ever directly provide false information to HMT, but Principals noted they are aware that ministries hold the information advantage and face incentives to sometimes outline 'the worst case scenario'. This source of information appeared more important than the OSCAR monthly spending figures. This is perhaps understandable as the internal management information packs include detailed analysis, forecasts and discussion of fiscal risks; whereas OSCAR figures provide just headline numbers (which are themselves uploaded by the ministry).

Relatively little is expected from Principals regarding spending control in terms of written outputs, such as submissions, memoranda and/or reports. GEP provides monthly updates to the Chief Secretary to the Treasury (CST; the HMT Minister with specific responsibility for public spending) on the progress of expenditure against plan. These updates may require input from Principals if their ministry is mentioned in particular, but there is no "standing" written reporting procedure from spending teams to GEP; the relevant issues would be discussed and agreed in the weekly or fortnightly meetings between the two. Every six months, GEP writes a more detailed report on the progress of public spending for the CST. Principals may again be asked to contribute to the report to cover specific items on which they have policy oversight. In general, formal written reporting from Principals to more senior officials and/or ministers would take place "by exception", i.e. if there is a large problem, a major risk/opportunity or a difficult (and/or politically charged) spending issue. Normally they would input into GEP processes as needed.

All three Principals interviewed followed very similar procedures. They all emphasised the distinction between the 'strategic finance' function (with whom they engage on issues of spending policy, fiscal risks and overall in-year position management) and the 'accounting' function (with whom GFR tend to deal with directly). The focus of the Principal's role is firmly on the 'strategic finance' issues rather than the mechanics of public spending.

The Netherlands

Tasks related to the four year cycle

In the period before the parliamentary elections the Inspectorate updates the list of savings options that can be used to finance new spending initiatives of potential coalitions of different political orientation. The list is subsequently updated annually and can be used during the Cabinet period to finance expenditures that are not foreseen in the coalition programme and the expenditure framework. The list of savings options makes use of spending review reports that have previously been produced but not yet been used[38].

A task that relates to the four year cycle but is not carried out at its start, concerns the compilation of packages of inter-ministerial reallocation, that takes place in reaction to major unforeseen events, such as the global financial crisis. Respondents mentioned in this respect the EUR 12 billion Spring Agreement of 2012, the EUR 16 billion Autumn agreement of 2013 and the EUR 5 billion package of 2016. The package of 2012 was not only required to comply with the overall ceilings of the cabinet period (starting in 2010[39]) but also to comply with the *ad hoc* downward adjustments of the overall ceiling required by the rules of the SGP of the European Union[40].

Tasks related to the annual budget cycle

The following tasks are carried out most regularly:

- Review of IBOS figures;
- Brokering general compensation packages;
- Analysis of underspending.

One of the key tasks of each section of the Inspectorate is regularly updating the estimates in the IBOS system. A junior official of each section typically carries out this task but this does not imply that it is not important, on the contrary. The IBOS system constitutes the information base of which all other work depends. The Inspectorate has to approve all changes at every update. This may incidentally lead to discussions with the finance directorate of the line ministry at the level of the section head. The credibility of financial data can often be checked by simple p x q (price times quantity) calculations. Programmes are broken down in units, for instance, services delivered, or clients served, or units constructed or personnel employed, and budgetary options (either new spending or new saving) can then be compared with existing budgets from a p x q perspective. If an IBOS update is based on a higher price per unit than an existing budget then the line ministry has something to explain. If no agreement is reached a section may decide to submit the matter to the Minister of Finance. Common reasons for such submissions are: 1) the line ministry wants to start a new policy that in the view of the Inspectorate is not necessary or useful, 2) the line ministry has not provided credible specific compensation for overspending on a line item. Performance data are particularly important when a line ministry proposes a new spending initiative. The line ministry has to show that the new initiative is at least as effective and efficient in relation to given policy objectives as existing policies, and preferably more effective and efficient. The budget analyst will resist a new initiative if the line ministry cannot show that this is the case. The Inspectorate is mandated to apply a marginal check, but ultimately effectiveness and efficiency are seen as the responsibility of the line ministry. However, both respondents indicated that compensation is the first and foremost requirement. After the minister of Finance has decided that a proposed specific compensation measure is not appropriate, the line ministry usually acquiesces. Escalating a problem concerning the propriety of specific compensation measures would harm the reputation of a line ministry at the Ministry of Finance, which the line ministry tries to avoid.

Another important task in the context of the annual budget arises incidentally, namely if a line minister is confronted with a major adverse development that they cannot solve within their own budget. The line minister may then appeal to the Ministry of Finance with a request for general compensation. For instance, the refugee crisis of 2015 and 2016 led to an additional claim on the ODA budget (for development aid) since the costs of aid to refugees during the first year of their stay in the Netherlands is covered by that budget. This claim could only be partially solved by the Ministry of Foreign Affairs. Approximately EUR 1.5 billion was released in the general budget. Another example was the reallocation in favour of the police, intelligence agencies and judicial services in the 2017 budget connected to the terrorist threat. This was paid for by all ministries in proportion to their budget. The brokering of such forms of general compensation require a large effort of the section that supervises the line ministry concerned, as well as good co-operation within the Inspectorate with other sections and good internal communication with the Minister of Finance. However, it should be emphasised that general compensation occurs only rarely in special circumstances. In the entire previous Cabinet period it has occurred only twice. The norm is that ministers must solve their own problems by specific compensation.

One respondent also mentioned the annual analysis of line items that are not fully exhausted at the end of the year, as an important task. All sections of the Inspectorate perform such analyses. They often provide insight in underlying problems of a policy. For instance, when intended recipients of a social benefit or a subsidy cannot be properly identified, or that the execution of public works takes more time than expected.

Budget analysts are supposed to be familiar with important research results concerning the programmes under their supervision, but they are not supposed to be policy analysts themselves. For this reason the Inspectorate has created the Bureau of Strategic Analysis. Although the officials of this bureau are in principle regular budget analysts that are supposed to take part in the switch policy of the Inspectorate, during their stay in the Bureau they are supposed to develop basic skills in the area of policy analysis[41] and to support colleagues of the line sections in the development of sensible savings options.

Each section of the Inspectorate produces 10 to 20 memoranda for the Minister per month. Major memoranda concern the annual advice to the Minister on the draft budget, which serves as the basis for the annual bilateral meeting between the Minister of Finance and the line ministry. These bilateral meetings usually take place with all line ministries, but can incidentally be skipped if there are no problems that require political decisions. Bilateral meetings may also take place in August, preceding Cabinet decision-making on the revenue side of the budget. This may also require a major memorandum.

Next to these major memoranda to the Minister there is a permanent flow of memoranda on subjects that are tabled in the weekly meeting of the Council of Ministers as well as the meetings of the sub-councils. The Minister of Finance participates in most of the sub-councils.[42] Incidentally, there are memoranda concerning the application of the budget rules during the updates of the IBOS system. Memoranda are addressed to the Minister and usually drafted by a member of the section whose name is on the memorandum. The head of the section countersigns. So do the Director of the Inspectorate, the Director General of the Budget and the Secretary General. Incidentally, the head of the section may draft a memorandum themselves but not all section heads do so.

Respondents stated that all sections of the Inspectorate basically do the same work, regardless of the nature of the line ministry they supervise and regardless of the nature of the spending programmes of the line ministry. There is no specialisation of budget analysts, apart from the fact that every budget analyst is supposed to learn enough about the spending programmes under their responsibility in a very short time-span after they have been assigned to them to be able to function properly. The emphasis on generally applicable skills is further promoted by an active switch policy, which is aimed at switching every official of the Inspectorate after at most 4 years to another section.

Slovenia

The following tasks were carried out most regularly:

- Preparation of advice to feed into the government sessions;
- Monthly checking of fiscal performance;
- Analysis of legislation.

A weekly task revolves around the preparation of advice to feed into the government sessions every Thursday. A pre-discussion is held on Tuesdays to clarify the positions of the ministry, co-ordinated by the cabinet of the minister and generally attended by the head of each directorate. Often as part of this process, the Director General will review 15-20

memoranda. The memoranda are generally prepared by budget co-ordinators or officials at a similar level in other departments within the Directorate.

The Director General of the Budget also holds meetings every two months to check general government performance. Within the State Budget particular importance has been assigned to monitoring the performance of social benefits which are driven by rights established in legislation and make up a large share of the budget (EUR 1.2 billion out of the total EUR 9.5 billion). For some Budget Co-ordinators, monitoring and briefing associated with budget execution focuses on the aggregate position for the direct budget user against the quarterly cash ceiling.[43] For welfare spending by the Ministry of Labour, monitoring is more involved. Payments are rights-based and highly political. As a result, there are also periodic (mostly monthly) meetings in the Ministry of Finance with the State Secretary to monitor welfare payments.

Understanding legislation and legal issues appears to be a central analytical task for Budget Co-ordinators, at least the more senior ones interviewed for this research. This includes checking the compatibility of draft laws with EU legislation, such as the rules concerning State aid. Furthermore, each draft law must have a financial paragraph on costs, which must be checked on realism and affordability. One Budget Co-ordinator explained their methods as broadly 1) establishing the legal basis for an intervention or change; 2) checking whether it is compatible with existing financial and other legislation; 3) reviewing the financial consequences presented by line ministries and the assumptions/ methodology behind those calculations; 4) considering the impact of the intervention on society and the economy. Developing a firm opinion to communicate to the Minister of Finance might take considerable time. In one example, the Budget Co-ordinator had worked on a new draft law over a period of five months.

The budget analyst role appears to differ considerably between individuals and portfolios. While the Budget Co-ordinator for the Ministry of Agriculture had dedicated most of her time to managing exceptional issues (estimates 70%) including reviewing changes to legislation, the Budget Co-ordinator for the Ministry of Labour was more involved with actively monitoring and projecting welfare spending, which is rights-based.

4.2. Managing the relation with the line ministry

UK

Nature of the co-operation

HMT's relationship with line ministries[44] on spending control is shaped and affected by a number of overarching and interrelated factors. The first is the nature of HMT's 'macro control' approach to spending control. Detailed spending decisions are left to ministries and their Accounting Officers, and are generally not challenged provided they follow HMT's rules and guidance. This naturally leads to a 'hands off' approach to spending control where most day-to-day decisions are left to ministries. Once a spending settlement is agreed at spending reviews, the approach operates primarily on 'reporting by exception' i.e. ministries will report on the detail of their public spending actions when there is a problem, rather than when things are satisfactory in a steady state.

A second factor determining HMT's relationship with line ministries is the substantial trust and strong informal relationships between HMT spending teams and their ministerial counterparts. Principals noted that in general they leave ministries to get on with spending, and trust that problems will be brought to their attention when needed. Principals did not

appear to doubt that information provided to them was correct, although they were aware of the incentives ministries have to selectively and carefully present their figures.

A third factor is the high level political alignment between Cabinet ministers on the government's public spending agenda. This arguably is a 'macro-political' underpinning to HMT's overall ability to control spending which cascades down into the ability of Principals to work productively with their ministry on spending control. The nature of the UK's (predominantly) single party governments combined with extensive executive control of public spending ensures that accountability for fiscal results lies clearly with the government of the day; and as a result Cabinet ministers face strong incentives to moderate their spending behaviour (however reluctantly) to respect overarching government goals. In addition, HMT Principals and their opposite numbers will be aware that for all but the most controversial and pressing spending issues, their Cabinet minister superiors will go to great lengths to avoid seeming to argue with each other in front of the Prime Minister for ultimate adjudication. As a result, there is strong pressure on both sides to find some form of resolution to spending control issues rather than simply withdraw co-operation from one side or the other and endlessly escalate upwards.

Information streams

The most important information streams are the monthly submission of OSCAR numbers and the monthly ministerial internal management information. HMT's own controls on these data are relatively high-level (e.g. OSCAR numbers and accompanying Estimates processes do not give a great sense of detail of what is happening below aggregate levels). To access more detailed data and engage in more granular discussions on spending control, respondents highlighted a number of 'informal' contacts and meetings with officials of line ministries. These informal processes constitute a 'core' part of the Principal's role.

The three Principals interviewed emphasised that they are in regular contact with the finance functions of their ministry. They characterised this as 'always picking up the phone' or 'every day I contact them for something'. They emphasised that they mostly speak to the 'Strategic Finance' part of their ministry rather than the 'accounting' part of the finance function (mirroring the division within HMT between the 'mechanics' of spending run by GFR and the 'policy/political' aspects run by the Spending Principals).

Each Principal noted that they have face-to-face 'keep in touch' or 'broad view' meetings with their ministry. These are informal and the mid-level staff would represent HMT at these meetings (although typically more senior staff than attend from the ministerial side). These informal meetings would have a rolling agenda covering both mechanics of spending (e.g. is the process of estimates or supplementary estimates on track) as well as policy issues (even if substantive policy debate was taking place elsewhere).

The Director of the Public Spending group chairs the monthly meetings of the Finance Directors of the line ministries, where information is exchanged on the progress of budget preparation and execution.

The Netherlands

Nature of the co-operation

The budget analysts of the Inspectorate co-operate closely with their counterparts in the line ministries. These counterparts are the finance directorates of the line ministries. Most officials of the Inspectorate also meet with officials of line directorates of the line

ministries. However, the frequency of such meetings differs between line ministries. Some Finance Directors want to be informed about such meetings, some want to attend such meetings and some do not allow such meetings at all. In general budget analysts spend around 5 to 10 hours of their weekly working time in meetings at the line ministry.

Respondents emphasised that a relationship of confidence between the Inspectorate and the financial directorate of the line ministry is essential for each side to function effectively. The need for smooth co-operation is reflected in formal arrangements. The appointment of a Finance Director in a line ministry requires the approval of the Minister of Finance. For this reason the Inspectorate is always represented in the recruitment commission of a new Finance Director. Furthermore, the Task Decree for Finance Directorates mentions tasks that fall outside the hierarchy of the line ministry and for which the Finance Directors are not accountable to the line minister.

The finance divisions of the line ministries generally do not try to withhold information, even if it sheds critical light on policy or proposed policy. The co-operation between the line ministry and the Inspectorate is a repeated game. The line ministry will need the Inspectorate in the future and has no interest in hiding information. The line ministries are generally very concerned about their good reputation with the Inspectorate[45].

The general attitude of the budget analysts of the Inspectorate is that they operate pro-actively concerning potential adverse developments in that they ask questions about matters that give them reasons for concern. Conversely, they operate reactively concerning proposals and problems that the finance directorates bring to their attention.

Budget analysts and financial divisions co-operate in the preparation of the bilateral meetings at the political level in June and sometimes in August. Given the character of such bilateral meetings they try to limit the items to be decided by the ministers to a very small number, for instance two or three. This implies that they try to solve all other problems by themselves.

Budget analysts are generally not invited to participate in internal working groups or meetings of the line department. However, they do participate in inter-ministerial working groups or task forces that are established by the Cabinet or by a minister to study problems that concern more than one ministry. Recent examples are the Task Force Governance Asylum Procedures and the Task Force Care Expenditures. The Inspectorate is also represented in all spending review working groups.

Information streams

Respondents stated that the IBOS system constitutes the most important information stream between the line ministries and the Inspectorate. Finance directorates often seek informal guidance from the Inspectorate before they submit IBOS data. This may lead to discussions about the usual topics (is the special compensation offered credible?, is the new spending initiative necessary and useful to begin with?) even before the data are inserted in the system.

Other important information streams that lead to informal discussions or requests for guidance on the part of finance directorates are the policy letters that have to be submitted by the line ministries in March[46]. Informal discussions may in turn lead to memoranda from budget analysts to the Minister of Finance with a request for guidance ("picking up a mandate").

A formal instrument that the Ministry of Finance can apply if a certain policy area poses serious threats for budgetary discipline is the imposition of preventive control. This implies that the budget holder for the policy area must ask for approval from the Inspectorate for all commitments to be incurred from their budget (preventive approval). The instrument of preventive control is used selectively, since it contradicts the principle of devolution and puts a heavy work-load on the section of the Inspectorate concerned. It tends to lead to a daily stream of detailed information that is difficult to handle by the section if it is applied. A recent example is the imposition of preventive control on the commitments of the Tax Service after a case of serious miss-management had occurred. In order to handle the resulting information stream, a dedicated team of 5 budget analysts was formed.

A further information stream flows through the monthly meetings of the IOFEZ group (Inter-ministerial Consultation Organ for Financial and Economic Affairs). This group is composed of the Finance Directors of all ministries and is chaired by the Director General of the Budget. The IOFEZ group is used by the Ministry of Finance to provide information on the budgetary situation and guidance on IBOS and other submissions by the line ministries. Finance Directors can use the meetings to ask questions and to informally discuss upcoming problems in their sectors[47].

Slovenia

Nature of the co-operation

The most important form of co-operation between the Ministry of Finance and the line ministry is the exchange of information and the communication on the budget between the Budget Co-ordinators and the Finance division of the line ministry.

Budget Co-ordinators may also approach line divisions in the ministry or even direct budget users under the ministerial portfolio in order to obtain the information that they need. However, the relationship with officials outside the line ministry's Finance division is not always as cordial. One of the Budget Co-ordinators noted that she has a better relationship and gets more information from junior officials in line divisions, but at higher levels the officials become more "foggy".

The Finance division from its side also maintains contacts with other units of the Budget Directorate and with other Directorates of the Ministry of Finance. For instance, they may discuss issues relating to the preparation or execution of projects funded by the EU with the Management of EU Funds and Cohesion Policy Department. They may also be in contact with the Treasury Directorate with regard to issues related to budget execution.

When asked how often they communicate, both Budget Co-ordinators claim to speak no less than every week with their counterpart in the finance division of the line ministry in the off-season, and as much as several times a day during budget preparation (April-September). Communication is very diverse, ranging from discussions on policy issues to questions on how to use the budget preparation system (APPrA) The relationship at this level is generally collegiate, with more adversarial discussions generally involving higher levels of the administration.

The Finance division of the line ministry appears to view requests for additional resources as a lottery, while the Ministry of Finance officials also noted that in negotiations "sometimes you win, sometimes you lose". Issues may be overtly political, and so cannot be resolved or vetoed by the Ministry of Finance, even at the ministerial level. The interviews suggested that some ministries, such as the Ministry of Labour and Ministry of

Education, may be able to use their political weight to seek additional resources, though this may change with coalition arrangements and policy priorities.

Information streams

Arguably the most important channel of communication is the ICT system for budget preparation (APPrA). This system is closely interfaced with the accounting and budget execution system (MFERAC). At the technical level there are many interactions related to the mechanical process of entering proposals, explanations and output indicators, including clarifications regarding guidelines issued by the Ministry of Finance.

Once the budget submission is drafted, the Budget Co-ordinator conducts a detailed line-by-line review of its content, again using APPrA. This is generally followed by discussions with the line ministry in order to clarify submissions. Unresolved issues are communicated more formally in writing. Though APPrA is also used to plan and report on non-financial performance, and interviews confirmed that a large amount of information is gathered, this does not appear to be used extensively in decisions related to the budget, in the finance ministry at least.

Until now there is no regular meeting of the Budget Director with the heads of financial divisions of line ministries in Slovenia[48].

4.3 Qualifications and HR policy

UK

Educational background

The recruitment of budget analysts and their GEP oversight colleagues does not follow a fixed path. There is no special "budget officer" entrance route or mandatory qualifications for such posts. HMT, along with most of the UK civil service, generally follows a "generalist" model that does not expect specific qualifications (e.g. accounting certification) for staff to undertake these roles. From discussions with staff it appears that Principals have at least 8 years civil service experience, which may not all have been at HMT. They are all graduates, although they may have studied a wide range of different subjects and there is no expectation that to work on public spending, HMT staff must be graduates in economics, finance, public administration or similar fields. Many Principals and GEP staff will also have master's degrees, although this is not a requirement. Most Principals and their GEP counterparts are in their mid-30s upwards.

Training

Training on spending control, for example the principles of HMT's public spending framework and the procedural rules, is provided in-house by GEP. This can be delivered either as part of a formal group training (which may involve a wider set of HMT staff who are not Principals) as well as "side-by-side" coaching and instruction by GEP as issues arise. It was emphasised by respondents that "experience on the job" was what really mattered and that the rules of public spending were not particularly difficult to understand.

Performance assessment

HMT has a formal performance management system, involving annual objectives, and half-yearly/yearly reporting and assessment. Objectives relating to spending control are included in the annual work objectives of Principals. Most HMT staff are high performing.

An informal combination of personal reputation and day-to-day perceived work capability is the main criterion for determining onward success, to which the formal assessment contributes, but does not constitute the sole determining factor. There is a very limited system for variable compensation or bonus payments for good performance.

Switch policy

Principals are supposed to stay in post for at least three years although HMT has historically struggled to maintain and enforce this requirement. An additional "intermediate" grade (E2) has been introduced across HMT in order to incentivise institutional retention in the key mid-level grade (which includes most Spending Principals), where experienced staff were seen as particularly affected by incentives that promote high turnover. More junior spending team staff are expected to spend up to 2 years in post. There are informal limits on maximum duration of Spending Principals in post (i.e. staff are effectively not permitted to remain in their spending role indefinitely), but there is no presumption that an official leaving a spending team role would automatically take up a position in another spending team.

The Netherlands

Educational background

The educational background of the officials of the Inspectorate is quite diverse. Most of them are recruited immediately after university or after some years work experience elsewhere, but there is also a small side instream of persons who have substantial work experience (more than 8 years) elsewhere (around 10%). Most recruits have studied economics or public administration, but there are also some engineers, lawyers, econometricians and social scientists. Most recruits arrive via the programme of financial trainees that is run by the Ministry of Finance. This programme takes in 40-50 trainees per year for the entire financial function of the central government. The Directorate General of the Budget takes four graduates of this programme per year. The Directorate General of the Budget as a whole takes also some recruits from the BOFEB trainee programme, which focuses on policy economists for the central government.

Training

All new officials of the Inspectorate are supposed to follow the VOFHA course (professional training public finance for senior officials) that is run by the Academy of Finance, Economics and Operational Management of the Directorate of Budget Affairs. In subsequent years they are offered a variety of other courses, including advanced VOF courses focusing on various aspects of the budget process, but also training in soft skills like negotiating, coaching and management, and seminars and courses related to the policy field in which the budget analyst is working. The officials that manage the IBOS system attend the practical course that the Bureau of Policy Preparation organises for them. On average, a budget analyst takes part in a training course every other year.

Performance assessment

The performance of all staff of the Inspectorate is assessed once a year in a performance appraisal (backward looking). Budget analysts in the sections and bureaus are assessed by the section or bureau head. The section or bureau heads are assessed by the Director or the Deputy Director of the Inspectorate. Section heads discuss the draft appraisals of their staff

with the Director and Deputy Director in order to ensure equal standards throughout the Inspectorate. Also once a year, budget analysts and section heads enter into a formal discussion about personal development and career objectives (forward looking).

Variable compensation and bonuses have virtually been abolished, although incidentally somebody still gets a bonus, mostly in cases that they carried out a large or difficult task that was far beyond their job description.

Switch policy

Every official of the Inspectorate switches regularly to another section or bureau of the Inspectorate. After three years in the same position, budget analysts are supposed to start looking around at positions in other sections or bureaus that fit in with their personal aspirations and to acquaint the Director of their preferences (juniors switch after 2 or 3 years, seniors switch after 3 to 4 years). After 4 years, most budget analysts have switched jobs. For section and bureau heads these terms are generally a year longer. Apart from fostering generally applicable skills and offering staff an attractive career path, the switch policy also aims to prevent that budget analysts develop relationships that would be considered too cozy with the line ministry ("going native"). Within sections, switches between the programme areas assigned to a budget analyst are even more frequent.

Switches from the Inspectorate to other Directorates of the Directorate General of the Budget or the Ministry do also occur but are arranged *ad hoc*. Outside the Inspectorate there is no official switch policy that is imposed from above.

Slovenia

Educational background and recruitment

Recruitment is regulated by the Ministry of Public Administration and overseen by the Civil Service Council and has been limited in recent years by staff ceilings imposed in response to the fiscal crisis. This has led to a reduction in the number of staff in the Ministry of Finance overall from 501 in January 2006 to 428 in January 2015. More recently some recruitment has been permitted and the number rose back to 444 in January of 2017.

Staff in the Budget Directorate are mostly economists by training; around 13% (13) have a master's degree, while a further third (23) have a university degree. Most of them are recruited immediately after university or after some years work experience elsewhere (usually in other parts of government). More generally, research undertaken by IMAD (2015) indicates that a greater share of public administration employees hold tertiary-level qualifications in Slovenia (56.7% in 2011) as compared to the EU-28 average (37.5%).

Training

There is no formal training programme for budget staff in the Directorate. Staff receive internal training on the use of the two IT systems (APPrA and MFERAC). Some respondents also mentioned that they actively look for external courses to attend. However, in general staff typically learn on the job.

Pay and performance appraisal

Base salary and bonuses are set through a comprehensive collective bargaining framework for the whole of central government, which is revised annually. Along with the reduction

in the number of staff, salaries have been cut twice in nominal terms in recent years as part of the fiscal consolidation package and performance related pay has been suspended.

More broadly, there remain questions about the effectiveness of performance appraisals in an administrative culture that continues to be influenced by the rigid and relatively egalitarian traditions of the old Yugoslav Republic. Salary progression (referred to as "promotion") is linked to years spent in post and a positive performance assessment, but in practice this is viewed as "automatic" and expected every three years. Some respondents believed that this undermined efforts to reward and motivate good performers but it was also suggested that the regulations for civil servants' salaries give enough options to reward and promote selected good performers (though some of these options may have been frozen in recent years as part of fiscal saving measures). The respondents felt however, that the administrative culture may discourage managers from exercising performance incentives to the extent legally possible.

Though there may be scope to improve these practices, some respondents suggested that the budget directorate retains a strong work ethic, in which underperformers typically struggle. Concerns related to administrative culture typically referred to incentives for staff to retain information – to have one's own "garden" as one interviewee explained – or to increasing burdens of bureaucracy and management in the ministry which slowed down decision making.

Switch policy

Staff in the budget department are mostly women (77%), with an average age of around 44 and have been in post for over 10 years (an average including recent hires). There is no standing policy for moving staff between sectors in the budget department or between departments within the Budget Directorate and finance ministry more generally. Positions in the ministry tend to be held by individuals for long periods with an emphasis on the depth of knowledge in a specific sector or area of administration. The lead budget co-ordinator for the Ministry of Agriculture had overseen that sector for over a decade, while the budget co-ordinator for the Ministry of Labour had been moved from another part of the ministry as part of an internal restructuring process three years earlier. One respondent claimed that the management of the fiscal framework has been held by a single individual for over two decades.

5. Conclusions

This paper reports on findings in three case studies on the behaviour of budget analysts working in the Budget Office of central government. The three cases studied were of the UK, the Netherlands and Slovenia. The findings in this paper confirm that there are similarities in the behaviour of budget analysts in the three countries, but also a number of conspicuous differences. The following sections will first highlight the similarities and differences and conclude with some remarks from a theoretical perspective.

Similarities

The behavioural similarities are rooted in the institutional role of the budget office and are probably valid for many other countries. They include the practices by which the functions of challenge the proposals of the line ministry and liaison are fulfilled in relation to the line ministry. These functions are typically separated from those officials co-ordinating the budget and managing fiscal aggregates within the finance ministry itself.

The analytical function involves analysing of what the line ministry has proposed. This analysis is not very sophisticated. The budget analyst is not a policy analyst and rather relies on such tools as execution rates and p*q (price times quantity) calculations or benchmarking analysis. The budget analyst does not need a PhD in economics nor extensive expertise of the policy field in which they are working. The skills that the budget analyst needs are learnt mostly on the job and social skills are equally important as technical skills.

The liaison function is mostly through frequent interaction with the finance division of the line ministry. Budget analysts are assessed on the basis of their insight in the backgrounds of the line ministries' behaviour. They must be able to answer difficult questions on topics that the Minister of Finance is interested in. These questions are not only about the merits of the policies that the line ministry is pursuing or proposing, but also about political backgrounds: which pressure groups are supporting or opposing the line ministry; what kind of support is the line ministry seeking from other ministries; political parties; social partners etc. For this role budget analysts are largely dependent on good relations with the finance division of the line ministry but they also need political sensitivity and insight of political forces in which the line ministry is operating.

Differences

As to the differences, this paper's findings confirm that there are big differences between the UK and the Netherlands on the one hand and Slovenia on the other. These differences do not only concern budgetary institutions, but also in the behaviour of the budget analyst. However, there are big institutional and behavioural differences between the British and Dutch cases as well. These findings highlight the insight that the budget process in central government is an idiosyncratic part of public administration that is thoroughly shaped by domestic traditions and institutional developments[49]. Having worked on public financial management in different countries, the authors often noticed that only precise observation leads to a thorough understanding of what is going on in a particular country and that it is often misleading to generalise from the experiences in other countries on the basis of superficial institutional similarities. This insight has been confirmed again in this paper.

The UK/The Netherlands versus Slovenia

The first and arguably most important difference between the UK and the Netherlands on the one hand and Slovenia on the other ensues from the role of the expenditure framework. Both in the UK and the Netherlands all respondents confirmed that the major budget functions of aggregate fiscal control, allocation and operational control have shifted from the annual budget process to the multi-annual framework process. Henceforth the annual budget process focuses on implementation. It is true that Slovenia also practices a medium-term expenditure framework (as presented in the Decree on the Fiscal Framework), even though it can be revised year-to-year (a so-called "flexible framework" as opposed to a "fixed framework" that stays in place for a number of years[50]; OECD 2015). However, only fiscal aggregates in this framework are binding, in the sense that budget preparation has to comply with its limits, and then still under the proviso that there have not been substantial changes in the circumstances on which the ceilings were first proposed[51]. Budget ceilings for individual proposers of financial plans remain subject to negotiation and line ministries feel free to develop budget proposals that exceed the ceilings that are derived from the fiscal framework. The negotiation process between line ministries and the Ministry of Finance mostly takes place *after* the ceilings have been established (in the second budget

sessions of government) instead of *before* this happens as is the case in the UK and the Netherlands.

This applies to numerous countries that work with an expenditure framework. In theory it should be possible that a flexible framework would be binding during subsequent budget preparation and execution (and that consequently budget negotiations would take place before the framework is established), but the authors know of no case where this applies. *The presumption is that a flexible framework is in practice, a non-binding framework.* This study does not suggest that a non-binding framework is entirely senseless. It gives an orientation to subsequent budget preparation in the sense of top-down budgeting and in some cases, including Slovenia, it has probably contributed to aggregate fiscal control and the halting of the relative growth of public expenditures in relation to GDP. However, it does not put the same kinds of constraints on budgetary policy as a fixed framework does. This applies even more so to the later years of the framework than to the upcoming budget year(s)[52]. A fixed framework forces a government to take structural savings measures during budget preparation that have little effect in the short run (t or t+1), but that are necessary in order to force the medium term estimates (for t+2 and t+3) under the ceilings for those years. Similarly, a binding framework makes it necessary to force new spending initiatives with little effect in the short run, but major structural effects, under the ceilings for later years, possibly through compensating structural savings measures. In general, a fixed framework tends to focus attention both during the preparation of the framework and during annual budget preparation, on what will happen in later years rather than on what will happen in the upcoming budget year. In the case of the countries discussed here, it appears to help the finance ministry focus the budget process on structural rather than temporary measures. The use of a multi-year fixed framework may also have changed incentives in the annual budget process (not in the multi-year framework process) as the relationship between the line ministries and the Budget Office has reportedly become less adversarial and more co-operative than it was before.

A second important difference between the UK/Netherlands and Slovenian cases concerns the focus of the budget analyst on the compliance with ceilings, instead of on operational control at the line item level. In the UK and the Netherlands, merits of programmes are mainly discussed in the framework process, in conjunction with the approval of new policies and savings. In the annual budget process, budget analysts focus on adherence to ceilings and apply only a selective marginal check on effectiveness and efficiency of new policies. Line ministries are responsible for operational control and are pretty much free to move resources between programmes and policy instruments as they see fit. In the UK, there are no line items to control. Formally, line items in the UK coincide with the control totals. HMT does not exercise control beneath these control totals, except where a specific and/or high profile spending item has been identified within the segments and sub-segments and it chooses specifically to monitor that item. In the Netherlands there are strict rules for compensation between line items, so that the ceilings cannot be exceeded. This is very different in Slovenia where the budget analyst is very much focused on operational control, including through oversight of changes in legislation initiated by line ministry, and where the Ministry of Finance is strongly involved in any reallocation between policy arears or policy instruments in the line ministries.

A third major difference concerns the budget reserve. In the UK, there is only a tiny budget reserve and it is hardly used. HMT strongly discourages and resists reserve claims and feels that the control totals must be complied with and applies a firm rule that the reserve is only there to address genuinely unforeseen and uncontrollable spending pressure. In the Netherlands there is no budget reserve[53]. In Slovenia, appeal to the budget reserve and other

reserves is more common. There are no rules and practices that prescribe specific and general compensation and Finance divisions of line ministries lack the authority (and possibly the incentives) to impose compensation on line divisions that have not caused the overspending.

The mentioned differences are both of institutional and behavioural nature, but it can be argued that insofar as they are behavioural, they are rooted in institutional features of the budget process. However, our sense is that there are also behavioural differences that are mostly based on cultural rather than institutional conditions. In the UK and the Netherlands there is a strong civil service ethos of mutual trust and co-operation. This ethos is anchored in a tradition of autonomous public administration that has been influenced by private sector practices. In Slovenia, the culture of public administration is changing, but maintains a link to traditions in the old Yugoslav Republic. This has some notable influences on the horizontal co-ordination between ministries and within the finance ministry as well.

As far as horizontal co-ordination is concerned, the civil service ethos of mutual trust and co-operation in the UK and the Netherlands implies that the ability of the budget analyst to develop good relations with the line ministry and to understand its thinking and motivation is valued more than affinity with the aims of the minster or the government coalition. A notable example in the UK is the sharing of management reports from the line ministry with the budget analyst. Though in Slovenia individual relationships between budget analysts and the Finance division of the line ministry may also be strong, the level of openness at the formal level is more limited.

The culture of trust and co-operation is also important for the relations within the Ministry of Finance. Information sharing among different directorates as well as between junior officials is a matter of course in the UK and Netherlands, without asking permission from higher level officials. This culture is enhanced by relatively frequent job switches, which imply that officials are supposed to stay no longer than 5 to 7 years in the same position. Job rotation is partially formalised in switch policies, but also occurs without formal policies. In Slovenia information is more protected and there is no formal or informal switch policy.

The UK versus the Netherlands

In spite of the similarities between the British and Dutch cases, there are also remarkable differences. The most important ones are detailed below.

First, in the UK line ministries are responsible for compliance with the control totals. This means that they are constantly "compensating" overspending on spending categories below the level of control totals by savings found elsewhere, but this takes largely place below the radar of HMT and Parliament, because HMT focuses on the control totals and Parliament sees only the estimates (which coincide with the control totals). The main forms of compensation that are handled by HMT and that Parliament might "see" are re-balancing between AME and DEL expenditures where AME is running ahead of forecast, and (through its approval of Supplementary Estimates) recognition of reserve claims (which HMT keep as few as possible). Furthermore, AME/DEL compensation is decided by HMT on an *ad hoc* basis in light of circumstances and HMT might not even require off-setting reductions at all (for example, underspending AME items in one ministry may ultimately compensate overspending AME items in another ministry leaving a net zero effect). In the Netherlands overspending on line items has to be compensated by savings on other line items in the same ministry or sector (specific compensation) or in another ministry or sector (general compensation). Compensation has to comply with strict rules. Checking

compliance with these rules is a key task of the budget analyst. Almost all mandatory spending is under the ceilings.

Second, the number of ceilings (control totals) in the UK is relatively large, namely 5 ceilings for each of 53 ministries. In the Netherlands the number of ceilings is relatively small, namely 3 sector ceilings and 11 ministerial ceilings. The small number of ceilings in the Netherlands implies that they cover relatively large expenditures which facilitates compensation. This difference is somewhat relativised by the fact that in the UK many ceilings are (very) small (many ministries are small and AME capital ceilings in particular are small). Perhaps related to this large number of ceilings is the fact that there are some 20 spending teams in HMT consisting of 5 to 10 FTEs working on spending issues, versus only 7 sections of the Dutch Inspectorate of Finance equally consisting of 5 to 10 FTEs.

The effectiveness of top-down budgeting

Looking at the results from a more theoretical perspective, a first conclusion that comes to the fore is that all three countries have succeeded in halting the relative growth of public expenditures as a share of GDP (in the UK and the Netherlands already in the 1980s, in Slovenia in the first decade of this century). Assuming that the relative growth of expenditures is a necessary consequence of incrementalism (OECD 2015), this means that the budget process is no longer incrementalistic in the traditional sense of Wildavsky and that all three countries have succeeded in imposing top-down constraints on budgetary negotiations.

The role of top-down constraints has been emphasised in the economic theory of the budget process. This theory focuses on the "common pool" nature of tax resources[54]. For every beneficiary of a government policy, be it a citizen, a parliamentarian representing a group of citizens, or a minister representing a group of parliamentarians, the benefits typically exceed the tax costs of the policy, since the benefits are concentrated more than the tax costs among specific groups of the population. The basic role of top-down constraints is that the overall tax level is decided simultaneously with spending proposals (both the continuation of existing spending levels and the approval of new spending proposals). This ensures that the preference of the large majority in favour of low taxation levels can have an effect on spending decisions, even if for every group of beneficiaries the benefits of a government policy exceed the tax-costs. The minister of Finance typically fulfils the role of the broker between the interests of the large majority of tax payers and the interests of the relatively small beneficiary groups of spending proposals. The fact that since the 1980s in most OECD countries the growth of expenditures has come to a halt in conjunction with the introduction of stronger top-down constraints, such as fiscal rules, medium term expenditure frameworks, and spending review procedures, can be seen as evidence for the role of such constraints.[55]

In the economic approach incrementalism in Wildavsky's sense of must be seen as specific set of decision-rules rather than as an alternative theory of the budget process. These rules include that during the budget process existing expenditures are taken for granted (no decreases on existing spending levels), that new spending is negotiated in bilateral meetings between "guardians" (minister of Finance and appropriations committees) and "advocates" (line ministries), and that only small increments can be proposed in each budget cycle. Under majority voting in the absence of top-down constraints, these rules may lead to an ever expanding government budget[56]. This will even be the case if the benefits of every government policy are so concentrated that every group of beneficiaries consists only of a (small) minority of the citizens[57].

In Slovenia the transition from incrementalism to top-down budgeting has made clear strides in recent years but has not yet been completed. Indeed, the transition to top-down budgeting does not only mean that budget preparation starts with the establishment (or continuation) of ceilings but also that the decision on the ceilings is taken after consideration of all relevant trade-offs, in particular trade-offs between existing and new expenditure and between expenditure and tax revenues. This requires that the entire budget preparation process is moved forward so that all relevant information is available when the ceilings are decided. This information includes the multi-annual estimates for current policy, multi-annual forecasts for tax revenues, options for new policies (both new spending and savings options) and according multi-annual estimates and options for new tax measures and according multi-annual estimates for new tax measures. In Slovenia these conditions are not fully satisfied. The consequence is that negotiations take place after the ceilings have been decided. As our respondents indicated this often leads to decisions to cut the least politically sensitive items in the budget (investments). It also generates the feeling among budget analysts that budget preparation "is a lottery, where you can win or lose". This situation is not sustainable in the longer run in view of the need for structural reforms.

In the UK and the Netherlands, the transition to top-down budgeting has mostly been completed. This has led in these countries to a clear split between the multi-annual framework cycle that fulfils the budget functions of aggregate fiscal control, allocation and operational control, and the annual budget process that focuses on implementation. In both countries large efforts are made to ensure that all relevant information for the required trade-offs are available to the decision-makers when the framework is decided.

This does not mean of course, that no further improvements are possible in the institutional set up of the budget process in the UK and the Netherlands. The UK could perhaps learn from other countries, including the Netherlands, on aspects such as the large number of ceilings, the relative frequent occasions where the total ceiling is adjusted during the lifetime of the framework and formalisation of the rules on compensation. The UK could also consider the Dutch experience and whether it would be better to simply formalise a DEL/AME merger or automatic compensation and what benefit that would bring. As far as the Netherlands is concerned the framework procedure could be improved. In the UK this procedure (Spending Review) is somewhat better structured than in the Netherlands. In the Netherlands the framework is basically decided during the Cabinet formation, which is a highly political negotiation process between party leaders that is conducted mostly in secrecy. Arguably, there is tension between the political nature of these negotiations and the need to respect evidence based evaluation results. Furthermore, although large efforts are made to provide the negotiators with all relevant information (mostly by the Netherlands Bureau for Economic Policy Analysis and the Ministry of Finance), some information is sometimes lacking. For instance, the Dutch spending review procedure is not always focused enough on the cabinet formation, which implies that sufficient, well-elaborated savings options are not always available for all expenditure areas. At the occasion of the last cabinet formation no comprehensive spending review has taken place at all. Moreover, well-elaborated tax options are often lacking. These deficiencies could in principle be corrected by the Ministry of Finance itself, but it would help if authoritative bodies such as the Study-group Budget Policy would provide guidance in this respect.

Notes

[1] The term fiscal policy is used in this paper in a broad sense: includes institutional policy as well as expenditure and tax policy.

[2] The term line item is used in this paper for the most detailed level of parliamentary authorisation of a budget item, regardless of the classification (there is no assumption that the line item is defined in an economic classification, possibly in addition to an administrative, functional or programmatic classification).

[3] It may, for instance, be assigned to separate divisions of the ministry where the Budget Office is located, which are not formally part of the Budget Office, such as a separate Budget Division, Accounting Division (rules about accounting and financial reporting), or Treasury Division (rules about budget execution). The latter (Treasury) can also be outside the Ministry where the Budget Office is located (as in Australia, Canada and the USA). Other institutional policies can be assigned to the Ministry of Economy or Planning (rules about investment selection and execution) or to the Ministry of the Interior or to the Cabinet Office (rules about agencies, the civil service, procurement or evaluation). Responsibility for the independence and the relationship with the forecasting institution is a cross-government issue which is usually managed from the top of the ministry where the Budget Office is located. The Budget Office itself can also be outside the Ministry of Finance or the President's Office (as in Canada). In the USA both the Budget Office and the responsibility for institutional policies largely rests in the Office of Management and Budget under the President.

[4] Tax policy is categorised as budgetary behaviour rather than as institutional policy in spite of the fact that it is based on permanent laws. The same is true for expenditure policy that is based on permanent laws, such as expenditures in the area of social security and public health. The main reason is that all these expenditures and revenues are in principle subject to annual authorisation.

[5] Financial administration includes the execution of the budget and the preparation of financial reports (Kraan 2017).

[6] The receding government reforms broadly aimed at privatisation, deregulation and tax relief, took place in the mentioned countries before 1990, when Slovenia, Hungary, the Check Republic and Slovakia were still under communist control.

[7] The questionnaire and the replies received are available upon request from Kraan (djkraan@outlook.com).

[8] The largest savings packages occurred in 2010 (EUR 18 billion by 2014 and EUR 25 billion structurally), in the spring of 2012 (EUR 12 billion by 2017 and structurally), in the autumn of 2012 (EUR 16 billion by 2017 and EUR 18 billion structurally), and in the autumn of 2013 (EUR 6 billion by 2017 and structurally).

[9] It had reached 1.5% in 2016 (CBS 2016).

[10] It has been reduced to 66.2% in 2016 (CBS 2016).

[11] The sustainability balance indicates (in percentage of GDP) the extent to which current public services, including social benefits, are sustainable (payable without increasing public debt) in the long term (until 2100).

[12] In the UK, administrative units of government have different naming conventions. Some institutions are called 'departments' and others are named 'ministries'. In addition, there are different governance and accountability relationships between institutions such as 'non-ministerial departments' and regular 'departments'. For the purposes of this study, the term 'ministries' is used to cover all institutions with a direct accountability relationship to HMT and

Parliament for their spending, even if their formal naming convention and/or exact governance structure may vary.

[13] The tasks of politically appointed members of cabinet are not specified by regulation. In practice roles vary but are generally not limited to administrative support (which is provided through the civil service positions) and extends beyond public relations.

[14] DEL stands for Departmental Expenditure Limit.

[15] AME stands for Annually Managed Expenditure.

[16] In 2014 HMT undertook and exercise to go line by line through AME expenditure and identify which spending items could be moved into DEL totals (to incentivise greater control by the ministry over the expenditure). Some items were moved, but large parts of government spending (mostly welfare related) remain in AME.

[17] At the spending review forecasts for non-tax revenues are agreed. If the income exceeds the agreed limit by lesss than 10%, the ministry can keep the addition and add it to their spending. If the income exceeds the agreed amount by more than 10%, the ministry needs HMT approval to keep the addition.

[18] The National Audit Office believes that HMT focuses the Spending Review system too much on reaching a financial settlement (namely getting the department to agree to the control totals for the medium term in a bilateral negotiation), and not enough on using the process to embed value for money, encourage cross-government prioritisation and support inter-departmental collaboration (National Audit Office 2012, 2016)[18].

[19] It is 'open' for updates and amendments for the current year and for the four years previously. Sometimes departments restate their spending; other times the Office of National Statistics reclassifies expenditure and departments retrospectively amend their inputs to reflect this. After these five years have passed, it is 'frozen' and the figures become the historical record.

[20] In addition OSCAR data must be uploaded in the economic classification provided by the Office of National Statistics (60 categories) in order to complete the National Accounts.

[21] More detailed scrutiny of spending proposals takes place in parliamentary Select Committees. These committees undertake more scrutiny of Estimates and their accompanying explanatory memoranda. However, the traditional approach to detailed Parliamentary oversight of public spending has focused on "after the fact" processes of review, audit and challenge of expenditure that has already taken place. Parliament rarely exercises its (theoretical) right to investigate, debate and approve of specific details of the executive's spending plans before implementation.

[22] The Spring Statement covers the state of the economy, the fiscal position and progress of public expenditure in light of the latest medium term expenditure framework. The current chancellor wants the statement to focus on "long-term fiscal issues".

[23] This document sets out the expenditure and tax plans for the next fiscal year in line with the latest approved expenditure framework. It typically provides more detail on economic and programme groups than the main estimates document (appropriations bill) that follows later.

[24] The Financial Bill sets out the changes to revenue-raising legislation. It does not contain expenditure measures, these go through the appropriation bill. In the UK there is no medium term revenue framework that sets any constraints on the annual increase or decrease of the overall tax burden.

[25] The framework for publishing accounts is managed predominantly by GFR and implemented by the ministry concerned. It is characteristic for the devolved approach towards accounts management that Principals do not particularly review or challenge ministerial accounts unless a problem is identified (e.g. a Principal noted that policy changes within his line ministry had meant challenges in consolidating accounts by the year end, and this led to a long series of

discussions with GFR and the line ministry on how to manage this, where usually this would be an issue for the ministry to manage).

[26] The expenditure framework has played a central role in budget policy since its introduction in 1994. Until the financial crisis of 2008 the total ceilings have almost always been complied with. However, sometimes cabinets did not complete their terms and stepped down as a consequence of a political crisis. In those cases a new expenditure framework was adopted when a new cabinet was formed and the former framework had a shorter lifetime than the four years for which it was designed. In reaction to the global financial crisis some "stimulus" measures were taken in 2009 and 2010 that can be interpreted as an upward deviation from the total ceiling (for instance the removal of unemployment benefits from the social security ceiling). Furthermore, the tax reduction package of 2016 contained some measures at the expenditure side that implied an upward deviation from the total ceiling. When in the period from 2009 to 2012 the Netherlands were in the excessive deficit procedure of the Growth and Stability Pact, consolidation packages were adopted that implied a downward deviation from the total ceiling (Studiegroep Begrotingsruimte 2016).

[27] The Study group Budget Policy consists of civil servants of the most relevant ministries, the Central Bank and the Central Planning Bureau. In its advice over the upcoming Cabinet period it has mainly identified two problems in the functioning of the framework (Studiegroep Begrotingsruimte 2016). The first is the so-called indexation rate problem, which arises from the fact that a reserve for wage and price adjustment is included under the ceiling. It is based on a forecast at the start of the Cabinet period, taking into account the specific wage and price sensitivities of the expenditures in the budget, whereas the ceiling itself is fixed in real terms and annually translated in nominal amounts by the price index of GDP. This implies that errors in the forecast of the wage and price adjustment, which are not compensated by the annual update of the price index of GDP (because of the different base of both indicators), have to be solved under the ceiling. This may necessitate additional savings or provide for space under the ceiling (available for additional expenditure), sometimes amounting to billions of euros. Because of the technical complexity of the mechanism, this is hard to explain to politicians and citizens. The second is that there are trade-offs concerning the inclusion under the ceiling of the so-called macro items (gas revenues, interest payments and unemployment benefits) between control, predictability and automatic stabilisation. The Study Group recommends solving the indexation rate problem by using the public sector indexation rate for both the annual compensation of wage and price developments and the indexation of the framework. As far as the coverage of the framework is concerned the Study Group recommends bringing the interest payments and gas revenues under the ceiling (gas revenues as negative item), but to exclude unemployment benefits. This will extend the coverage of the ceiling while simultaneously strengthening the automatic stabilisation effect.

[28] The budget rules can be divided in budget norms, which describe the constraints for political decision-making, and implementation rules which describe how the compliance with the budget norms is ensured. In the current Cabinet the set of budget rules was made up of 36 rules, described in a document of 13 pages. Budget rules are politically agreed upon at the start of a Cabinet.

[29] There are mixed impressions on the usefulness of this two-year budget. The second year numbers are provisional, but some respondents felt that they were important because they allowed co-ordinators to engage with line ministries on reforms that take more than 12 months to implement. Another respondent suggested that it adds credibility to negotiations when trade-offs are made at the political level to increase resources in the outer year in exchange for lower allocations in the forthcoming fiscal year.

[30] It is guided by the Decree on Development Planning Documents and Procedures for the Preparation of the National Budget.

[31] The Budget Memorandum is a government document that sets out fiscal and other policies in the next four-year period (Kamnar 2013). Among other information it includes macroeconomic assumptions, the fiscal framework (in accordance with the Decree on the Fiscal Framework) and major economic and financial measures included in the upcoming budget.

[32] All euro area members must also have a law concerning fiscal rules in accordance with the rules of the Growth and Stability Pact of the EU. Under the new Fiscal Rule Act, adopted in 2015, the Slovenian Parliament approves limits on the budget balance and other macro parameters for a period of four years.

[33] The ceilings are stronger for a number of reasons. One is that the Fiscal Rules Act is based on an article of the Constitution, strengthening its legal basis. Second, the Fiscal Rules Act provides for structural budget balance and expenditure rules, and the application of these rules will be checked by the new Fiscal Council. Basically the formula targets a balanced budget over the medium term, with limits for expenditure depending on whether there is a positive or negative output gap. Finally, once approved in April, limits can only be changed again in September if there have been substantial changes in the circumstances on which the ceilings were first proposed.

[34] The numbers for the years t+2 and t+3 are indicative. The aggregates do not always comply with the fiscal framework.

[35] APPrA is managed by the Department for Budget Systems Development in the Budget Directorate of the Ministry of Finance and used by all direct budget users. Budget submissions are made through a web-based application known as SAPPrA.

[36] In Slovenia it is common practice to issue a blanket restriction on commitments towards the end of the year either as part of a supplementary budget or in order to avoid overspending in the current budget year. One respondent described this process as helping to save one or two percent from annual expenditure. The restriction of commitments is initiated through a decree approved by cabinet. Though the decision is generally expected in the final quarter, the date has been varied in the past in order to prevent ministries from rushing in with new commitments. After that point ministries will need Ministry of Finance approval to enter into new commitments, and budget co-ordinators may be asked to provide an opinion. In practice, most of the mechanics of budget execution are housed outside the Budget Directorate. The Treasury Directorate is responsible for cash and debt management, while the Directorate for Public Accountancy is responsible for managing accounting practices and the budget execution system (MFERAC). When commitments are suspended, the Budget Directorate will work with these two departments on a daily or weekly basis to manage final commitments from budget users.

[37] Including that, certain ring-fences within spending are being respected.

[38] In the Netherlands spending review reports have been produced on an annual basis since 1981. The spending review procedure is co-ordinated by the Bureau of Strategic Analysis of the Inspectorate. Spending review reports are produced by working groups of civil servants. These working groups include representatives of the relevant line ministry(ies), the Prime Minister's Office, external experts and the Inspectorate of Finance. Spending review reports must describe saving options and their effects on policy objectives and the budget without recommendations. Each member of a working group can propose options. There is no veto right. All spending review reports are published. The number of spending reviews per year has diminished somewhat in the last decade (from 10-15 to some 5 per year). In the year preceding the previous elections (of 2012) 20 spending reviews were produced covering a large part of all expenditures and this also happened in years of parliamentary elections in the past (such large rounds are sometimes called "comprehensive spending reviews"). However, in the current year no large round of spending review has taken place in spite of upcoming elections, possibly because of savings fatigue and the positive economic outlook.

[39] The Cabinet formed in 2010 had fallen in early 2012, the Spring agreement was reached by the demissionary Cabinet and some opposition parties.

[40] Inter-ministerial reallocations for the purpose of compliance with the ceilings can be seen as forms of "general compensation". However, this term is usually reserved for packages of lesser size.

[41] The Bureau of Strategic Policy Analysis does not do empirical research itself. However, its officials are supposed to develop skills in policy analysis, based on existing empirical information. Most officials working in the Bureau have gained experience in policy analysis and empirical research in previous positions.

[42] Subsequent Ministers of Finance had different preferences for the memoranda of the Inspectorate on council items. Some Ministers wanted to receive a memorandum on each item on the agenda of the council or sub-council, regardless of whether it had budgetary relevance. These ministers just wanted to know the backgrounds of every item on the agenda, since they had to decide on these items as members of the council, regardless of budgetary relevance. Other ministers did not require a memorandum of the Inspectorate on every item on the agenda, but only wanted a memorandum if the Inspectorate advised them to do something when this item was discussed (which implied that it was not only budgetary relevant but also required some intervention on his part), and memoranda on topics that had their personal and particular interest.

[43] This is tied to a system of quarterly cash limits that are set in the Public Finance Act. The Act defines two interrelated processes: determining the volume of expenditures of direct budget users in a certain period of time (i.e. quota) and budget liquidity planning (i.e. cash flow on the basis of the monthly plans) as part of the broader cash management arrangements under the Treasury Directorate.

[44] The counterparts of HMT are the ministries and the agencies reporting to HMT on expenditure management. Each ministry or agency must have an accounting officer. This person is usually its senior official. Consequently, the accounting officer of the ministry is usually the permanent secretary . The accounting officer should be supported by a board structure in line with the Corporate Governance Code. Formally the accounting officer is the person, who parliament calls to account for stewardship of its resources. HMT formally appoints the accounting officer. In practice the ministry determines who it will be and HMT will sign it off. The accounting officer has to sign off the annual financial statement of the ministry or agency.

[45] The current Director General of the Budget strongly promotes the idea that the Inspectorate and the finance directorates of the line ministries have the same interest, namely the smooth functioning of the budget process and the optimal delivery of financial information to the Ministers and the Cabinet. She is advocating this idea under the heading of "Government Budget Office version 5.0", which includes both the Directorate General of the Budget of the Ministry of Finance and the finance directorates of the line ministries.

[46] These policy letters serve, next to the savings list that is prepared by the Inspectorate, as the main source of information on potential policy changes that is available at the start of budget preparation.

[47] The current Director-General of the Budget uses the IOFEZ group also to discuss general themes that are not immediately related to the current budget cycle but that have more long-term relevance.

[48] The current Director-General has held some meetings with heads of finance divisions and is considering to organise these meetings on a regular basis.

[49] The authors are not saying that all countries that have reformed their public administration in previous decades and that have strong traditions of devolution of budget authority to line ministries will probably show the same behavioural patterns as is found in the UK and the Netherlands. Rather, the authors presume that these patterns are due to specific institutional developments in the UK and the Netherlands that were made possible by previous reforms and

traditions in these countries, but that did not necessarily occur in other countries with a similar background of reforms and traditions.

[50] A flexible framework remains a medium term (multi-annual) framework even though it can be revised from year to year.

[51] See section 3.2 above.

[52] Slovenia has a budget for two years.

[53] There is however, a tradition of "conservative estimation" in the Netherlands, strongly supported by both the Ministry of Finance and the finance divisions of the line ministries. This implies that there are "hidden reserves" in many line items that can be used by finance divisions to offer specific compensation and by the Ministry of Finance to solve major problems.

[54] See for instance: Von Hagen 1992; Von Hagen, Harden 1994. For overviews of the economic approach to the budget process see: Von Hagen, Hallet, Strauch 2002 and Alesina, Perotti 1999.

[55] Institutional arrangements that are supportive of top-down constraints can be distinguished in those that are based on hierarchical subordination to a single decision-maker and those that are based on contracts between the ultimate decision-makers. Both arrangements lead to centralisation of the decision-making process (Von Hagen, Hallett, Strauch 2002).

[56] For this result to follow from the theory of n-person, co-operative, economic, simple majority games, it is necessary that some agenda constraint is put on savings proposals (Kraan 1990). Such a constraint could take the form that savings proposals can only be put forward across the board (compare the rule of incrementalism: existing spending is taken for granted) or that proposals for spending increases cannot be combined in the same vote with proposals for savings (compare the rule incrementalism that new spending is decided in bilateral negotiations; also called the rule of non-intervention).

[57] The result follows if various majorities subsequently vote in favour of government policies that benefit them, supposing that the benefits of each policy are more concentrated than the tax costs. It follows also if voting takes place on the basis of combined proposals in favour of policies that benefit more than a single minority, supposing that the benefits of each policy for its supporters exceed the tax costs of both the policy and the other policies comprised in the proposal (logrolling) (Kraan 1990).

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Volume 18/2

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ISSN 1608-7143
VOLUME 18
(3 ISSUES)
42 2018 48 1 P