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Budgeting in Slovenia

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Preface

This review of the Slovenian budget system was carried out as part of the Budget Project of the Working Party of Senior Budget Officials (SBO). The Budget Project aims to initiate and foster regional networks of Senior Budget Officials outside the OECD area. This review served as a basis for the examination of the Slovenian budget system at the first meeting of the network of Senior Budget Officials of Central and Eastern Europe, held on 10-11 November 2004 in The Hague.

A mission comprising Mr. Dirk-Jan Kraan and Mr. Joachim Wehner visited Ljubljana in September 2004 to carry out the review. During its visit the mission met with the Minister of Finance, Dr. Dusan Mramor, and with senior officials from the Ministry of Finance and two line ministries. The mission also met with the Chairman and staff of the Committee on Finance and Monetary Policy and the Commission for Budgetary and Other Public Finance Control of the National Assembly (the directly elected Chamber of the Slovenian Parliament), with the Second Deputy President and staff of the Court of Audit, with the Director of the Institute of Macro-economic Analysis and Development (IMAD), and with members of the boards of the Associations of Municipalities.

The mission would like to express its gratitude and appreciation for the warm and cordial reception by the Slovenian authorities and the frank and useful discussions with Slovenian officials. In particular the mission would like to express its thanks to Dr. Dusan Mramor, the Minister of Finance, Mr. Ciril Pucko, the Chairman of Parliament's Committee on Finance and Monetary Policy, Mrs. Zdenka Vidovic, the Second Deputy President of the Court of Audit, and Mr. Boris Sovic, the Mayor of Maribor, for the generous time they shared with the mission during its stay in Ljubljana.

Finally, the mission would like to thank Mr. Bojan Pogacar, Adviser to the Minister, Mrs. Helena Kamnar, State Secretary for the Budget, and Mrs. Irena Sodin, State Undersecretary for the Budget, for organising the mission's visit. Furthermore, the mission expresses special thanks to Miranda Groff Ferjanic, Adviser to the Minister, for her contribution to the organisation of the mission and her unsparing help and assistance during our stay in Ljubljana.

The OECD would like to thank the German Gesellschaft für Technische Zusammenarbeit (GTZ) and the German government for their financial and

personnel support of this review and their general support for the OECD Budget Project.

The views expressed in this report are those of the OECD Secretariat and should not be attributed to any organisations or individuals consulted for this review.

1. Introduction

1.1. General characteristics

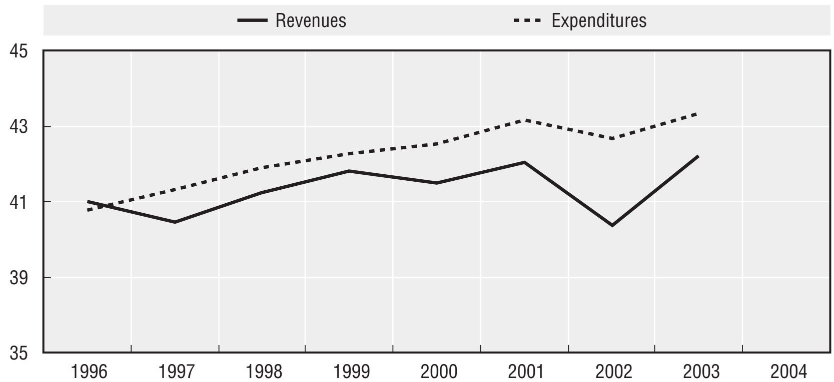
Slovenia is a young country. It came into existence as an independent State in 1991 after a short war against the Yugoslavian army. In its short history as an independent State it has experienced an amazing development. It has developed its public sector institutions almost from scratch, including its constitution, major organic laws, and working processes of the major organs of the State. At the same time, it has privatised almost its entire manufacturing, financial and wholesale sectors. This process has been very successful and was crowned by the accession of Slovenia to the European Union on 1 May 2004.

Slovenia is a relatively small country. It has about 2 million inhabitants and thus belongs with Cyprus, Estonia, Malta and Luxembourg as the countries of the European Union with less than 2 million inhabitants. Given its size, and the absence of any intermediate level of government between the central State and the municipalities, its public sector is relatively large. General government expenditure (including sub-national government) was 42.9% of GDP in 2003, but expenditure of sub-national government was only 5.0% of GDP. Abstracting from size however, Slovenia takes an intermediate position compared to OECD countries in this respect. Also this share of GDP has been fairly constant since 1996.

Public expenditure in Slovenia is firmly under control. Thanks to a well-designed budget procedure with strong institutional barriers against runaway programme expansion and overspending, deficits have remained low, even in the recent years of relatively modest real economic growth since 2000. It should be taken into account though that growth has remained relatively high in most EU accession countries during the slowdown experienced throughout the OECD area in the period 2000-03. Real gross domestic growth in Slovenia was well above the EU average in this period. Under these circumstances, the general government deficit has remained at a prudent level.

Under these circumstances the government's debt is at a more or less stable level since 1996, well below the EU average. In 2003 it stood at 26% of GDP.

Figure 1. **General government expenditures and revenues as a percentage of GDP**



Sources: Bulletin of Government Finance Year V, No. 6, June 2004. Forecast Spring Report 2004, Institute of Macro-economic Analysis and Development (IMAD).

Table 1. **Real gross domestic growth as a percentage of GDP in the previous year 2000-03 and forecast for 2004-05**

	2000	2001	2002	2003	2004	2005
EU 15	3.4	1.5	1.1	0.8	2.0	2.4
Slovenia	4.1	2.7	3.4	2.3	3.6	3.7

Sources: EU 15: Economic Commission, Economic Forecasts, April 2004; Slovenia: Spring Report 2004, Institute of Macro-economic Analysis and Development (IMAD).

Table 2. **General government deficits 2000-03 and forecast for 2004**

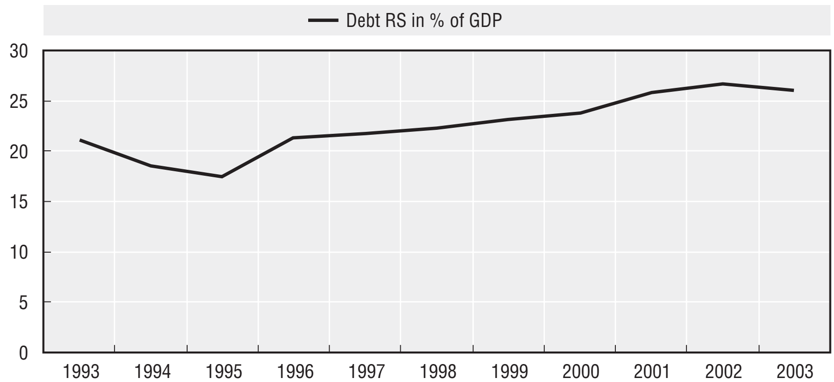
	2000	2001	2002	2003	2004
EU 15	1.0	–1.0	–2.0	–2.6	–2.3
Slovenia	–3.0	–2.7	–1.9	–1.8	–1.7

Source: Bulletin of Government Finance Year V, No. 6, June 2004.

1.2. Political environment

Slovenia has an electoral system of proportional representation. Since independence, no party has held an overall majority in Parliament, so that governing coalitions have to be formed. The present coalition[1] consists of Liberal Democracy of Slovenia (LDS) and smaller parties (the largest among them is the United List of Social Democrats). LDS was also the strongest member of the previous coalitions since 1992. Although the cabinet is

Figure 2. **General government gross financial liabilities as a percentage of GDP 1996-2003**



Source: Bulletin of Government Finance Year V, No. 6, June 2004.

primarily supported in Parliament by the coalition parties, it also includes ministers who are not members of these parties and are chosen on the basis of their expertise, such as the present minister of Finance.

The Slovenian budget process, while imbedded in the general democratic legislative institutions of the country, seems to run its course in a rather consensual political environment. Macroeconomic policy, including fiscal policy, seems to be a relatively uncontroversial area of general cabinet policy. Until the accession to the EU, the main efforts were directed at early and successful entry into the EU. Next to that, the main policy aim was to realise rapid economic growth above the EU average, in order to close the income per capita gap with the rest of the EU. Presently, as appears from the Budget Memorandum for 2004, the latter aim is still at the top of the political agenda, whereas simultaneously much attention is paid to the limitation of the macroeconomic and budgetary risks associated with EU entry.

The governing coalition, although at the end of its mandate, has a very ambitious reform agenda, which stretches far into the next parliamentary term. This agenda entails among other things the complete overhaul of the tax system, the reform of the health care system, the rationalisation of the system of social transfers and the reallocation of budgetary funds towards infrastructure investment. This reform agenda also, seems to be relatively uncontroversial, so that it will probably stay in place more or less in its present shape, regardless of whether the coalition will remain in office.

The consensual character of Slovenian fiscal policy also appears from the reasonably harmonious co-operation with the social partners and the sub-national governments. In July 2003 the government has reached an agreement with the social partners on public sector wage policy in 2004 and 2005, leading to a restrained growth of real wages in exchange for a more equitable distribution among public sector workers and an improved supplementary collective pension insurance system, which in the short term will contribute to savings and make room for public investment. Similarly, the co-operation of the municipalities with the national development programme is based on institutionalised consultation with the two associations of municipalities.

The relatively stable political environment of the Slovenian budget process does not imply that the opposition does not bring forwards amendments to budget proposals. However, such proposals are mainly directed at concrete expenditures or fiscal measures and do not seem to embody deep ideological differences about fundamental aspects of fiscal policy, as exist in many OECD countries.

2. Budget formulation

2.1. Key characteristics of the Slovenian budgeting system

It should be mentioned at the outset that the Slovenian budget system has two special features, which differentiate it from most OECD countries:

- First, in contrast to all OECD countries, Slovenia makes budgets for two consecutive years.
- Second, the Slovenian budget has a very detailed account structure, but still maintains flexibility during execution through a unique legislative device, called the "Law on Budget Execution".

Each of these features is briefly discussed below.

2.2. Budgets for two consecutive years

Article 13a paragraph 1 of the Public Finance Act of the Republic of Slovenia (the organic budget law) stipulates that the government shall submit to the National Assembly, together with the proposed budget for the subsequent budget year, a proposed budget for the year that follows this. This budget has to include everything that the budget of the upcoming year has to include. Paragraph 2 of the same article specifies that if the budget under the preceding paragraph is accepted, the Government shall no later than 1 October of the coming year submit to the National Assembly a proposal for budgetary changes that are necessitated by significant alterations in the assumptions of economic development or the guidelines of economic and public finances policies. This procedure comes down to annual budgeting for two consecutive years on a rolling basis. It is thus not the case that Slovenia makes a biannual budget every two years. Rather it makes two annual budgets every year.

This way of budgeting on a rolling basis does not occur in the OECD area. The Slovenian authorities see as its main advantage that it contributes to budgetary discipline. This would be the case for two reasons. First, it would rein in the tendency of line ministries to bring forward requests for budget expansion for the upcoming budget year in the annual budget negotiations. Since the budget for the upcoming year has already been decided during the previous budget cycle, only a limited set of changes can be considered. Indeed, these changes have to be motivated by macroeconomic developments or by adjustments of general fiscal policy. Since both reasons for amendment can not easily be invoked by line ministries, but rather have to be established by the cabinet and in particular the Ministry of Finance, the room for additional spending requests for the upcoming budget is narrowed down substantially, if not eliminated. Second, the procedure would contribute to budgetary discipline because line ministries would be more willing to co-operate in reform initiatives directed at rationalisation and realisation of savings, if these initiatives apply to a period that is still more than a year in the future, than if these initiatives would apply to the upcoming budget year.

Although the Slovenian system is quite unique, the reasoning behind it resembles in major respects the ideas that in a few OECD countries have inspired the so-called fixed expenditure frameworks. Particularly in Sweden and the United Kingdom, the government announces multi-year expenditure ceilings in the annual budget documents that cannot be changed from year to year, except for specific, predetermined reasons. These multi-year ceilings are confirmed from year to year on a rolling basis, with a new year added at the end of the medium-term framework each year. In the Netherlands, the government announces unalterable multi-year expenditure frameworks at the beginning of each parliamentary term for a period of four years. The idea is identical but the ceilings are not extended on a rolling basis but after expiration (once in four years).

The Slovenian procedure resembles the fixed multi-year frameworks of some OECD countries because it provides tranquillity and a medium-term orientation to the budget process: the annual upheaval characteristic for budget negotiations in many other countries is avoided and reform initiatives have a better chance when they are planned far in advance. However, the Slovenian procedure does not realise another stated advantage of multi-annual frameworks. It does not provide an automatic stabiliser, because it does not maintain expenditure ceiling regardless of macroeconomic circumstances, but on the contrary explicitly recognises the need to adjust the second year budget in the light of such circumstances.[2]

It appears then that the Slovenian two-year budget procedure is not a first step on the way to fixed multi-year expenditure frameworks. Apart from the fact that the Slovenian second year budget is a complete budget rather than an expenditure ceiling,[3] the Slovenian authorities seem to attach much value to a countercyclical stance in expenditure policy, that goes even further than automatic stabilisation. In this respect they refer to other EU countries that in recent years have taken a similar course, even though in some cases such policies have been hard to reconcile with the deficit ceiling of 3% of the EU Stability and Growth Pact. Slovenia, though not in the Euro zone, does want to respect the requirements of the pact, given its aim to adopt the Euro in 2007. However, in the view of the Slovenian authorities this does not preclude an active fiscal policy aimed at macroeconomic stabilisation. Indeed Slovenia has more leeway in this respect than some other EU countries, because both its structural and nominal deficits are well below the 3% ceiling.

In sum, the Slovenian two-year budget procedure is the outcome of a unique compromise between the aim to provide tranquillity and a medium-term orientation to the budget process and the need to maintain flexibility in the face of macroeconomic circumstances and new developments. In its present form the procedure is explicitly not meant as an automatic stabilisation device.

2.3. A detailed account structure

The account structure of the Slovenian budget is complex. According to the Public Finance Act the budget consists of a general part, a special part and a development programmes part. The general part applies to both direct and indirect budget users and contains the macro-budgetary totals of the central government: revenues, expenditures, liabilities and means of financing. The direct budget users are all bodies and organisations that are financed by the State budget, mainly the ministries with their administrative bodies and organisations, as well as independent bodies such as Parliament, Court of Audits and all the judicial bodies (all together more than 250). The indirect budget users are the State funds, public institutions and agencies founded by the central government (but not being financed by the State budget). The special part contains the financial plans of the direct budget users. The general and special part of the budget contains estimates for the budget year as well as estimated outcomes for the two preceding years (Article 10 paragraph 5 of the Public Finance Act).[4] The development programmes part contains the planned annual expenditures for investments and State aid of direct budget users in the subsequent four years (including the budget year), as required by the long-term development planning documents, special laws or other regulations. It is the responsibility of the budget users to see to it that their long-term development plans are adjusted in accordance with the development programmes part of the budget.

It follows from this set-up that the budget year slice of the expenditures of the direct budget users that figure in the development programmes part of the budget (mostly capital expenditures), are shown twice: once in the special part and once in the development programmes part. The financial plans of the indirect budget users and of the Health Insurance Institute of Slovenia (the health insurance fund) and the Retirement and Disability Pension Insurance Institute of Slovenia (the social insurance fund) are not part of the budget, but have to be submitted to the National Assembly together with the budget (and the Budget Memorandum). Both the budget and the financial plans of the indirect budget users and health and social insurance funds show estimates for the budget year but not for subsequent years. Multi-year estimates only figure in the development programmes of the direct budget users for a limited group of expenditures (capital expenditures, State aid, grants, projects financed through EU structural funds).[5]

The special part of the budget consists in the financial plans of the direct spending units and is divided into:

- budget expenditure areas;
- main programmes;
- sub-programmes;
- budget items;
- account sub-groups;
- accounts.

The subdivisions at the first three levels are mainly programme oriented. The subdivision at the account sub-groups level is based on the economic classification (salaries, goods and services, transfers, subsidies, etc.). In total there are some 9 000 budget lines at the lowest level of aggregation (accounts). The Slovenian authorities explain the detailed account structure of the budget by the necessity to hold a firm grip on spending and by the fact that Slovenia did not want to give up input control while moving towards a more output-oriented budget (the present account structure appears a cross table of an input and output classification).

The detailed account structure of the special part of the budget makes it necessary to provide for special procedures to allow reallocation during budget execution in order to cope with new developments. These procedures make it possible to shift expenditures between accounts without formally changing the budget trough supplementary legislation. The rules and constraints for these reallocations are laid down in the "Law on Budget Execution". This is a law which is submitted annually to the National Assembly together with the budget (more below). The budget itself is not a law but it has special status and is obligatory.

2.4. Annual budget process

In Slovenia the annual procedure for budget formulation is prescribed in an executive decree, namely the Decree on the Bases and Procedures for Preparation of the Proposed National Budget. It prescribes among other things: the time schedules and procedures for the preparation of the economic forecasts, the Budget Memorandum, the budget including the financial plans and development programmes of the line ministries and the indirect budget users and the budget amendments.

The budget year in Slovenia coincides with the calendar year.

Annual budget formulation starts with the release of the spring economic forecasts, which is due by 15 April. According to the abovementioned decree it should take account of the statistical data on the development of gross domestic product in the final quarter of the previous year, but in fact it also takes into account the statistical data of the first quarter of the current year. The forecasts should include estimates of macroeconomic aggregates for the current year and the following two years and the scenario for the next three years. It should also include an assessment of the principal risks for their realisation and a conservative assessment of the possible consequences of these risks. The economic forecasts are made by the IMAD, which is a semi-independent economic forecast bureau, modelled after the Swedish Konjunkturinstitutet and the Dutch Central Planning Bureau (see Box 2).

The Ministry of Finance is responsible for the revenue forecasts that are used in the budget. The Ministry of Finance has a staff of around 500 of which about 40 in the Budget Department. A systematic approach to revenue forecasting started in 2003. The forecasting division of the Budget Directorate uses basically the IMAD numbers for the development of domestic production but it may also look at the forecasts of other macroeconomic forecasting institutes, such as the Bank of Slovenia and the Economic Institute of the University of Ljubljana. The forecasting division claims to put up conservative estimates but there is no explicit use of a prudence factor, such as practiced by certain OECD countries (for instance, Canada and the Netherlands). The revenue forecasts have to be prepared within two weeks after the IMAD numbers have become available. Projections are made for both actual revenues and cyclically adjusted revenues. Trend estimation is complicated by the fact that only 11 reliable observations (of previous years) are available. The division also makes long-term forecasts for the next fifty years.

The revenue forecasts are used to draft the Budget Memorandum. This document has to be tabled at the First Budget Session of the Government, which has to begin by 15 May. The Budget Memorandum includes the overall nominal expenditure framework of general government (including health and social insurance and sub-national government). The framework states the

Box 1. **Budget formulation timetable**

April	The Institute of Macro-economic Analysis and Development (IMAD) releases the spring economic forecasts.
April-May	Preliminary discussions between Ministry of Finance and line ministries about priorities in new budget year (the year after the upcoming budget year) and amendment of the budget for the upcoming year.
May	The Prime Minister, Minister of Finance and Director of IMAD present the draft Budget Memorandum in the First Budget Session of the Government. The cabinet decides about overall nominal expenditure framework for the new budget year (including target numbers for the deficit or surplus) and guidelines for supplementing the draft Budget Memorandum (including national priorities for the budget period).
May-June	Meetings between Ministry of Finance and line ministries about the distribution of expenditures by budget user, budget expenditure areas (24) and main programmes (95) for the new budget year and amendment of the budget for the upcoming year.
June	On a proposal of the Minister of Finance, the cabinet decides in the Second Budget Session of the Government about the distribution of expenditures by budget user, budget expenditure areas (24) and main programmes (95) for the new budget year and amendment of the budget for the upcoming year. Within ten days after the end of the Second Budget Session, the Ministry of Finance sends a circular to the budget users about the preparation of the financial plans and development programmes.
June-August	Submission of financial plans and development programmes by line ministries to the Ministry of Finance.
September	The Minister of Finance submits the budget for the new budget year, the Budget Memorandum and proposed amendments of the budget for the upcoming year to the cabinet.
September	The Government submits the budget for the new budget year, the Budget Memorandum and proposed amendments of the budget for the upcoming year to the National Assembly.

Box 2. **The Institute of Macro-economic Analysis and Development (IMAD)**

IMAD is a semi-independent institute belonging to the government. It employs approximately 60 economists. It is responsible for the spring and autumn economic forecasts. Its director is responsible, together with the Prime Minister and the Minister of Finance, for the formulation of the draft Budget Memorandum, including the expenditure framework that is decided in the First Budget Session of the Government, and takes part in the cabinet discussion at that occasion. The IMAD also publishes economic studies on specific projects and government programmes. It also plays an important role in the development of the Economic Development Strategy of Slovenia and is responsible for the annual Development Report that monitors the progress of the Economic Development Strategy of Slovenia. IMAD also advises about many other long-term development plans for agencies and institutions in Slovenia. IMAD seeks to give advice that is based on the best available economic expertise and that is strictly objective without any political bias.

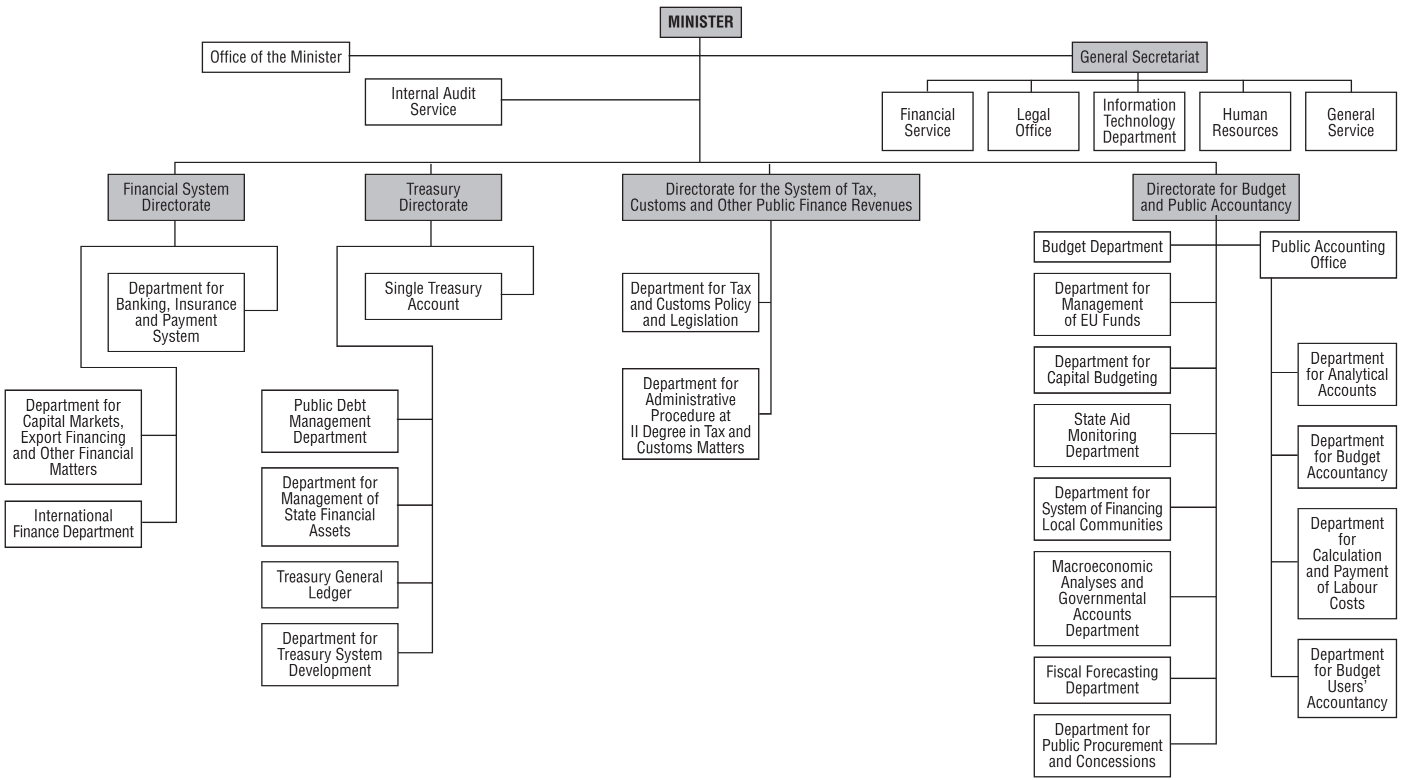
consolidated totals of expenditures and revenues by economic classification and the target amounts of the deficit or surplus for the following four years as well as the target level of the national debt for this period. The Budget Memorandum is drafted under the responsibility of the Prime Minister, the Minister of Finance and the Director of IMAD.

The expenditure framework included in the Budget Memorandum can be seen as a flexible multi-year expenditure framework as employed by most OECD countries. It can be adjusted from year to year on a rolling basis in the light of economic circumstances and new developments.

The Budget Department is responsible for expenditure forecasting, which is done on the basis of macroeconomic forecasts produced by IMAD and through preliminary collection of data from line ministries. These data have to take into account all legislation in force and envisaged legislation which has financial consequences. So the period up to 15 May is also used for discussions between the Ministry of Finance and the line ministries about their future plans. All the proposals of line ministries have to be transmitted to the Ministry of Finance and will be reflected in the draft Budget Memorandum in so far as they are approved by the Ministry of Finance and can be accommodated within the overall expenditure framework.

In the First Budget Session of the Government the cabinet discusses the draft Budget Memorandum. Apart from the overall expenditure framework, the Budget Memorandum contains the national development priorities and

Figure 3. **The structure of the Ministry of Finance**



Box 3. **Long-term planning documents**

The Decree on the Bases and Procedures for Preparation of a Proposed National Budget designates the Economic Development Strategy of Slovenia and other long-term development planning documents, together with the Budget Memorandum, as the strategic framework for the preparation of the annual budget.

The Economic Development Strategy of Slovenia contains long-term objectives and the target development scenario as well as basic operational policies in the separate areas of State activity. The strategy is described as a "comprehensive indicative document which takes account of social, spatial, environmental, regional, sectoral and other potentials, limitations and conditions". The strategy is adopted and updated by the government on the proposal of the director of IMAD. The implementation of the strategy is monitored by annual development reports of IMAD to be released in February.

Apart from the Economic Development Strategy of Slovenia, there are a number of other long-term planning and development programmes in use: the Development Programme of the Republic of Slovenia, regional development programmes, other development programmes, spatial plans, the pre-accession economic programme and the Single Programming Document. The relationships between these documents and their relevance for fiscal policy are not always clear. A certain streamlining of long-term planning procedures could contribute to transparency.

the overall distribution of expenditures (estimates) for budget expenditure areas (24) and main programmes (95) for the next four years. This implies that the Cabinet determines the nominal expenditure ceilings and the deficit or surplus for the following four years as well as the priorities for the budget period.

After consideration of the Draft Budget Memorandum, the cabinet issues guidelines for "supplementing" (elaborating and adjusting) the Draft Budget Memorandum. This leaves some room for subsequent negotiations with ministries and budget users within the constraints of the overall expenditure framework.

Immediately after the First Budget Session of the Government the Ministry of Finance meets again with the line ministries in order to reach agreement about the estimates to be included in the budget. These meetings focus on the 24 budget expenditure areas and 95 main programme areas distinguished in the budget memorandum, as well as on the total amounts for budget users. This is the main period of budget negotiations.

Apart from the new budget (which is the year after the upcoming budget year), the discussions with the line ministries may also involve the required amendments for the upcoming budget (which has already been adopted by Parliament in the preceding year). Here the constraints are even narrower than for the new budget. Whereas the constraint for the new budget is primarily the overall expenditure framework adopted in the First Budget Session, the constraint for amendment of the budget for the upcoming year consists in the restricted criteria for amendment. These criteria are:[6]

- substantive changes in the economic development assumptions;
- changes in the guidelines of economic and public finance policy;
- substantial deviation of the assessed implementation of the current budget from the adopted budget (for the upcoming year).

These criteria imply that room for amendment only exists if and insofar as the cabinet has established such room.

The Second Budget Session of the Government has to begin by 15 June. At this session the cabinet decides about the distribution of expenditures (limits/ceilings) by budget user, budget expenditure area and main programme. The cabinet has to make this decision in the light of the national development priorities established in the First Budget Session. Furthermore the cabinet has to respect the overall expenditure framework established in the First Budget Session, so that as a general rule an increase in expenditures for a specific main programme requires a reduction of expenditures in other main programmes. In practice however, limited adjustments of the overall expenditure framework have occurred. The cabinet may also decide about amendment of the already adopted budget for the upcoming year.

After the Second Budget Session of the Government the Ministry of Finance will issue a circular prescribing the procedures and dates for preparation of the budget. The circular includes[7] the agreed estimates by budget user, budget expenditure area and main programme and instructions and deadlines for the preparations of financial plans and plans of development programmes of budget users.

Financial plans have to contain the expenditure estimates up to the account (line item) level, categorised according to the economic and programme classifications. They have to take into account the distribution of expenditures by budget user, budget expenditure area and main programme as decided in the Second Budget Session of the Government.

Explanations of financial plans have to include:[8]

- a summary of the long-term objectives of the main programmes and sub-programmes of each expenditure area;

Box 4. **Budget formulation in the line ministries**

Line ministries prepare their budgets in three phases. The first focuses on the preliminary discussions with the Ministry of Finance. In these discussions, they present their overall priorities for the coming years. These include major initiatives for the reform of substantive laws and the budgetary consequences of these reforms. In the second stage, after the First Budget Session of the Government, the line ministries discuss with the Ministry of Finance the concrete expenditure estimates on the level of budget users and main programmes. This may concern the new budget, but also amendments to the budget for the upcoming year, already adopted in the preceding year. Finally, in the third stage, after the Second Budget Session of the Government, the line ministries prepare their financial plans and plans of development programmes on the line item level. Financial plans and plans of development programmes have to be consistent with the budget preparation circular of the Ministry of Finance. Financial plans of indirect budget users resorting under the ministry have to be discussed and agreed with the representatives of this funds, public institutions and agencies.

Financial plans are prepared by the financial division of ministries, but large agencies or divisions within a ministry and indirect budget users have their own financial divisions.

Since 2003, financial plans are communicated to the Ministry of Finance through the new SAPPrA software. After some initial difficulties, the software was improved and now provides a useful tool. The summer and autumn is also used to prepare the new substantive legislation, which is assumed in the budget. Sometimes this legislation has to be negotiated with the social partners in the Economic and Social Council. Other substantive legislation may require negotiations with representatives of executive establishments (hospitals, educational establishments, etc.).

- a review of the projects, activities and investment projects undertaken to reach the long-term objectives;
- physical, financial and descriptive indicators used to measure the realisation of the objectives;
- a report on the results achieved in the first part of the current budget year.

The government has to submit the Budget Memorandum and the proposed budget before 30 September to the National Assembly. However, this year (2004) no budget and Budget Memorandum have been submitted in view of the elections for the National Assembly that will take place in

October 2004 (there is already an approved budget for 2005). It is up to the new cabinet to submit a budget at a later date.

Within fourteen days after the publication of statistical data about the development of GDP in the second quarter of the current year or by 15 October at the latest, IMAD has to release the autumn economic forecast. The forecast should include estimates of macroeconomic aggregates for the current year and the following two years and the scenario for the next three years, as well as a risk assessment. The consequences of the autumn economic forecast should be taken into account in the formulation of the supplemental proposed budget during the parliamentary stage of the budget process (see Section 3).

2.5. *Conclusions*

Public expenditures and the general government deficit in Slovenia are firmly under control. This is mainly due to a two-stage budget formulation process in which an overall expenditure framework is established by the cabinet before the start of negotiations with line ministries. This amounts to an effective top-down steering mechanism which keeps expenditures in check and at the same time provides for sufficient flexibility to accommodate new priorities.

The Slovenian budget procedure has the unique characteristic that it requires the annual formulation of budgets for two consecutive years. This procedure provides tranquillity and a medium-term orientation to the budget process. In this respect it resembles somewhat the fixed medium-term frameworks that are in use in certain OECD countries. On the other hand it is explicitly not aimed at automatic stabilisation. The Slovenian authorities may consider limiting decision-making about the second year budget to expenditure ceilings for general government and a limited number of sub-sectors. This would remove the necessity to amend the second year budget at the line item level during the subsequent budget cycle and still maintain the tranquillity and medium-term orientation to the budget process. The Slovenian authorities may also consider whether they want to maintain their active anti-cyclical stance in expenditure policy rather than opting for a more acyclical stance as results from a fixed expenditure framework.

The aggregate levels of the budget classification provide a transparent picture of the spending programmes of the government and facilitate the decision making process during budget formulation. The input oriented line items guarantee at the same time that the cabinet and ministers hold a firm grip on spending. Nevertheless the Slovenian authorities may consider whether it is necessary for that purpose to maintain the present level of detail in the account structure. It seems possible to simplify the account structure substantially without losing control on spending on inputs.

It would be useful to integrate multi-year estimates at the line item level in the budget, rather than having them only on the more aggregate levels in the Budget Memorandum. This would contribute to the transparency of the budget documents but supposes a certain simplification of the account structure at the line item level.

The Institute of Macro-economic Analysis and Development is an excellent centre of economic expertise that belongs to the top-class of forecasting institutes in the world. It provides objective information of high quality to the budgetary authorities and ensures that the Slovenian budget is realistic and supportive of the economic development of the country.

The Slovenian Ministry of Finance may consider including an explicit prudence factor in its revenue forecasts.

The Slovenian authorities may consider the further consolidation of the budget. In particular it may contribute to transparency and to the effectiveness of the budget process to integrate the financial plans of the State funds, public institutions and agencies at the central level outside the State budget into the central government budget.

The Slovenian authorities may consider a certain streamlining of the arsenal of long-term planning documents that is presently in use. Some of these documents do not seem to be very effective.

3. Legislative approval

3.1. Budgetary powers and legal framework

The Public Finance Act requires the Government to table the draft budget in the National Assembly by 1 October preceding the commencement of the relevant fiscal year (Article 27). In accordance with the Act, the government also supplies a set of budget documents to the National Assembly (Article 13). These include the Budget Memorandum, the proposed central government budget, information on proposed planned sales of central government assets, financial plans for the health fund as well as the pension and disability fund, and the bill on budget execution. In the first few years after independence, the National Assembly formally adopted the Budget Memorandum, but this contributed to long delays and delayed approval of the budget. Under the current system the Budget Memorandum is no longer approved, although parliamentarians may still engage in commentary on its contents.

According to the Public Finance Act, the National Assembly is "obliged" to adopt the budget ahead of the start of the relevant fiscal year (section 29). However, should the budget not be approved in time for the beginning of the fiscal year, the Constitution (Article 148) and the Act (Article 32) allow interim spending in line with the previously approved budget. According to the Public

Box 5. **The Slovenian Parliament**

Slovenia has a bicameral Parliament consisting of the National Assembly (*Drzavni Zbor*) and the National Council (*Drzavni Svet*). The National Assembly is composed of 90 deputies elected by popular vote for four-year terms. In the 2000 elections, 40 deputies were directly elected and 50 were selected on a proportional basis. The ratio of directly elected and proportionally determined seats varies with each election. One deputy each is always elected from the Italian and Hungarian ethnic communities. The National Assembly appoints the Prime Minister. The Cabinet or Council of Ministers is nominated by the Prime Minister and elected by the National Assembly. The National Assembly is the pre-eminent chamber in budgetary and other legislative matters.

The National Council is primarily an advisory body based on corporatist principles. It has 40 members who represent social, economic, professional and local interests. Members are indirectly elected to five-year terms by an electoral college. The National Council may, within seven days of the passing of a law and prior to its promulgation, require the National Assembly to decide again on such a law. In deciding again, a majority of all deputies must vote for such a law to be passed unless the Constitution envisages a higher majority for the passing of the law under consideration. Such a new decision by the National Assembly is final. This procedure can in theory be applied to the Law on Budget Execution, but in practice this does not occur.

Sources: Constitution of the Republic of Slovenia; World Fact Book 2004.

Finance Act, such temporary financing is initially limited to a three-month period, which may be extended by the National Assembly on the proposal of the Government (Article 33). During the 1990s, the adoption of the budget was frequently delayed but in recent years approval has been timely.[9]

The powers of the National Assembly to amend the budget are restricted and disallow an increase in the deficit proposed by the Government. The Public Finance Act prohibits amendments to increase expenditures without offsetting increases in revenues or expenditure cuts elsewhere in the budget. Moreover, the act specifically disallows the financing of expenditure increases through cuts in the budget reserves (Article 30).

3.2. Parliamentary process

The Rules of Procedure of the National Assembly have been recently reformed and establish a strict timetable for the consideration of the budget (Rules 155-165). Following the presentation of the draft budget by the Minister of Finance, it is referred without debate to the committees of the Parliament. For the 2000-2004 parliamentary term, the National Assembly appointed ten standing committees that generally correspond with individual ministries or cover inter-related areas. The various parliamentary committees have ten days to formulate proposals for amendments, but only to the relevant parts of the budget that fall within their jurisdiction. During the committee stage some spending ministers might attempt to convince Parliament to increase their budgets, although chances are small that they will succeed. Amendment proposals have to be tabled in writing and include a statement providing reasons for suggested changes. Although the Government is formally not allowed to table amendments during this process, sympathetic Members of Parliament might be co-opted to sponsor amendments.

Following the ten-day consideration period for sectoral committees, the Committee on Finance and Monetary Policy exercises a co-coordinating function. This committee has an additional five days to deliberate on and co-ordinate various amendment proposals. The finance committee consists of 19 members and is chaired by a member of the governing coalition. It has limited logistical backup. No specialised budget analysts are attached to the legislature, and the finance committee is served by only two staff members, a secretary and a consultant. The latter is not a budget expert, however, because the consultant also has to service the committee's wider remit that includes subjects such as banking and monetary affairs. Based on the committee's review of the budget and various amendment proposals, it prepares a report to the President of the National Assembly.

Thirty days after the tabling of the initial draft budget, the Government reacts to the report of the finance committee and tables a second budget proposal that responds to the amendments put forward by members. At this point, the Government will have to highlight which amendments it does not accept, and provide reasons for any objections. Different amendment rules apply during this second round of parliamentary considerations. Since the reform of the Rules of Procedure of the National Assembly in 2001, only the relevant committee, one quarter of Members of Parliament and party groups can propose amendments during this stage. Any amendments are voted on during a plenary session that follows within 15 days after the tabling of the Government's second budget proposal.

At the end of the plenary session, if there are doubts whether the budget is in balance, the finance committee and the Government are requested to submit an opinion. If the budget is not in balance, *i.e.* should there be a mismatch between revenue and expenditure totals, the Rules of Procedure of the National Assembly outline a separate procedure whereby the Government and the finance committee would work towards establishing a balance

(Rule 163). Should the budget not be approved, the Government must submit a new budget within a time period set by the National Assembly.

In particular during the first year of a new Parliament, members are eager to demonstrate activism and up to about 400 amendment proposals may be generated. As about one third of Members of Parliament are at the same time mayors of local authorities, the amendment process is seen as an opportunity for the mayors to direct spending, in particular investment spending, towards their constituencies. At the end of the process, however, only about five to ten of all proposed amendments are typically adopted. Members of the governing coalition are more likely to table successful amendments, and they may be able to exert more subtle influence on spending priorities. In practice, the Government is usually requested to support members in identifying a relevant source for financing the cost of increases in expenditure. Although Parliament has in theory more autonomy in drafting estimates to cover the cost of the parliamentary administration, even this part of the budget is not generally accepted by Government without negotiating changes. Therefore, the overall budgetary impact of Parliament is small. At the same time, the parliamentary process appears to generate public debate on the budget. Deliberations in the plenary as well as the committees are open to the public and the media covers proceedings.

The budget is given a formal statutory basis with Parliament's approval of the Law on Budget Execution. The Act differs from budget or appropriation acts used in many other countries in that it is mainly concerned with setting extensive and detailed parameters for the execution of the budget. It establishes a wide range of mechanisms and procedures which allow the executive to adjust spending in-year without recourse to Parliament (to be treated in the next section). Flexibility in budget execution is complemented with extensive in-year reporting from the Ministry of Finance including monthly budget implementation updates as well as a mid-year report. The parliamentary finance committee considers the mid-year report.

Parliament also has a role in deciding significant changes to approved budgets. Typically, the approved budget for the second year of the two-year period has to be amended to take account of economic developments or policy changes. For this purpose, the Public Finance Act (Article 13a) requires the Government to submit its proposed amendments by 1 October of the year preceding the implementation of the approved budget for the second year. This need not be the case, however. In 2004 the Government refrained from tabling any amendments to the second year budget ahead of the elections. Officials in the Ministry of Finance pointed out that in this way the two-year budget process pre-empts an electoral budget cycle effect with negative implications for fiscal prudence.

3.3. Conclusions

The parliamentary stage is unusual in that the Government has two opportunities to table a draft budget proposal. The more typical procedure would involve one executive budget proposal, but allow the Government to convey its point of view on specific amendment proposals either during the finance committee or plenary stages. The Slovenian process might seem convoluted to the outside observer, but it appears to work in this context, at least during times when the Government commands the support of a stable parliamentary majority. Nonetheless, there appears to be scope for rationalising the parliamentary process by cutting out the revised budget proposal stage and instead extend the review process in the finance committee.

In Slovenia, the use of parliamentary committees for budget scrutiny is paired with a strong co-co-ordinating function of the finance committee. This allows broad-based review while maintaining fiscal discipline. However, the overall timeframe for parliamentary scrutiny of the draft budget is short and amounts in total to a 45-day process under normal circumstances, whereas the OECD Best Practices for Budget Transparency envisage a minimum of three months.[10]

Parliamentary oversight and the quality of deliberation might also be strengthened if a formal pre-budget statement[11] was released several months in advance of the tabling of the draft budget. This would allow Parliament time to discuss the overall contours of budget policy, whereas the current focus appears to be mainly on small details that relate to particular constituency interests.

4. Budget execution and service delivery

4.1. Reallocation during budget execution

The Slovenian budget procedure provides for various possibilities to reallocate expenditures during budget implementation and to deviate from the budget approved by the legislature. These possibilities can be subsumed under two headings, namely adjustments to control the deficit and adjustments to accommodate new developments. The basic principles of both kinds of adjustment are laid down in the Public Finance Act. The specification of the ways these principles will be applied in each particular budget year can be found in the annual Law on Budget Execution.

Article 40 of the Public Finance Act makes it possible to suspend temporarily the implementation of the budget due to the occurrence of new commitments or changed economic circumstances. In this case the cabinet may decide on the proposal of the minister of Finance to halt the incurrence of commitments, to propose the extension of contractual terms of payment or to halt the (re)allocation of budget appropriations necessary to incur commitments. The cabinet may also decide that prior consent of the Ministry of Finance is required to incur commitments. These measures should be reported to the National Assembly.

The same article of the Public Finance Act prescribes that the Government is obliged to propose a revised budget to the National Assembly if it should be impossible to balance the budget by the measures concerning the temporary suspension of implementation.

Article 8 of the Law on Budget Execution 2004-2005 (LBE 04-05) stipulates that if the cabinet concludes that, due to deteriorating economic trends as stated in the Spring Economic Forecast, the revenues will be below the planned level of the budget 2004 by more than 10 billion Slovenian tollar[12] (EUR 44 million) and by less than 25 billion Slovenian tollar (EUR 110 million), the government must apply the measure of a proportionate reduction of appropriations, in addition to applying the (other) measures of Article 40 of the Public Finance Act. This measure shall be applied to the amount of 15 billion tollar (EUR 66 million) with the remainder being provided by additional borrowing. However, the material and equipment of the army is excepted from this measure.

As far as new developments are concerned, the Public Finance Act makes it possible to reallocate appropriations, without legislative approval, under conditions stated in the annual Law on Budget Execution (Article 38). Reallocations should be reported every six months to the National Assembly. Such reallocations may be discretionary, as decided by the budgetary authorities, and mandatory, as prescribed by the Public Finance Act or the Law on Budget Execution.

In 2004-2005, discretionary reallocations can be decided by budget users, the cabinet or the Minister of Finance (Article 14-17, LBE 04-05). A direct budget user may independently reallocate budgetary appropriations within the same sub-programme in his financial plan, except that he may not reduce appropriations for co-financing of EU projects or financed by earmarked EU funds. All ministers and indirect budget users may independently reallocate budgetary appropriations within a main programme, without however restricting reallocation by direct budget users within sub-programmes, while reallocation between sub-programmes may not lead to a reduction or increase of the appropriation of each individual sub-programme of more than 15% compared to the adopted budget. Again appropriations for co-financing of EU projects or financed by earmarked EU funds may not be reduced. The cabinet may reallocate budgetary appropriations between main programmes and expenditure areas, without however restricting reallocation by budget users within main programmes and sub-programmes, while reallocation between main programmes may not lead to the reduction or increase of the appropriation for each individual main programme of more than 5% compared to the adopted budget and reallocation between expenditure areas may not lead to the reduction or increase of the appropriation of each individual expenditure area of more than 3% compared to the adopted budget. The cabinet may also reallocate appropriations for co-financing of EU projects or financed by earmarked EU funds. The Minister of Finance may independently reallocate appropriations within the financial plan of the Ministry of Finance and its bodies required for discharging liabilities concerning public debt servicing. The Minister of Finance may also charge direct budget users for the interest costs of short-term borrowing incurred because of failure of the direct budget user to inform the Ministry of Finance within the prescribed term of amendments to the liquidity plan of the direct budget user (see Section 4.2).

Mandatory reallocations have to be made in the following cases. Liabilities concerning pension security (social insurance), public debt servicing and contributions to the EU and projects financed by earmarked EU funds, which exceed the appropriations for these purposes, have to be paid (after cabinet approval). These expenditures have to be financed by revenues higher than planned or additional borrowing, except projects financed by earmarked EU funds which will be financed by additional earmarked revenue (Article 9, LBE 04-05). Furthermore all (other) appropriations financed by earmarked revenues and one-off receipts, have to increased by the amount of the actual revenues (PFA Article 43, paragraph 2). Earmarked revenues and receipts are enumerated exhaustively in the Law on Budget Execution (Articles 11 and 12, LBE 04-05).

Unexpected developments can also lead to mandatory or semi-mandatory reallocations financed by the general budget reserve and the budget reserve. The general budget reserve shall not exceed 2% of total revenue. This reserve is to be used for unplanned purposes for which no appropriations are made or for purposes for which it may become obvious during the year that insufficient appropriations have been made since they could not be planned in advance (PFA Article 42). One can think, for instance, of overspending on entitlements. The budget reserve shall not exceed 1.5% of total revenue. This reserve is to be used to finance expenditures covering the elimination of the consequences of emergency situations such as earthquake, floods, landslide, snowslide, snowdrift, hurricane, hail, sleet, frost, drought, mass outbreak of contagious human, animal or vegetal disease and other natural or ecological disasters (PFA Article 46). The use of the budget reserve fund can be decided by cabinet on the proposal of the minister of Finance up to the level of 2% of the fund and by the National Assembly for higher levels.

A special form of reallocation concerns the transfers of appropriations to the next budget year. All appropriations for co-financing EU projects shall be transferred at the end of the current budget year to the next budget year in order to complete a project (Article 13, LBE 04-05). Furthermore all appropriations financed by earmarked revenues, including earmarked EU funds, excluding the revenues earned by direct budget users through own activities, shall be carried over the next budget year (PFA Article 44).

In sum, the Law on Budget Execution 2004-2005, in connection with the Public Finance Act, provides the cabinet, the budget users and the Minister of Finance with a considerable arsenal of legal instruments to change the budget adopted by the National Assembly in the course of its execution. All of these changes have to be reported to the National Assembly, but most of them do not have to be approved by it through supplementary legislation.

4.2. Cash and debt management

In 2002 Slovenia introduced a Treasury Single Account (TSA) with the Bank of Slovenia that has led to the centralisation of the accounts of all budget users, the payments of all budget users and the liquidity management of all budget users.

The analysis made by the Treasury before the introduction of the TSA showed that average cash balances on general government accounts – where cash was held on non-interest earning sight deposits with commercial banks – exceeded 30 billion Slovenian tollars (EUR 130 million). An additional 90 billion Slovenian tollars (EUR 390 million) were placed in time deposits with commercial banks earning different rates of interest. These funds were independently managed by roughly 3 000 legal entities in the public sector. For the majority of these entities, the amounts were not significant enough to implement effective cash management.

With the introduction of the TSA, legal entities that were formerly managing their own cash lost their liquidity management independence. All their liquidity surpluses must be deposited in a special treasury sub-account at the Bank of Slovenia, managed by the Treasury. The Treasury also manages all funds left in sub-accounts of budget users (so-called sight accounts). The TSA consists of roughly 100 sub-accounts of direct budget users, 50 sub-accounts of the Pension Fund (social insurance), 30 sub-accounts of the Health Fund (health insurance), 70 other sub-accounts and the Treasury sub-account.

Centralisation of liquidity management implies that the Treasury manages both temporary surpluses and shortages of liquidity on separate sub-accounts. After the introduction of the TSA commercial banks have relations only with the Treasury (not with individual legal entities in the public sector). Because of this arrangement the Treasury can use its power (the size of its

Box 6. **Systems of cash management**

There are basically three models of cash management in central governments.

In the decentralised model (in place in Slovenia before the introduction of the Single Treasury Account), all budget users have their own account with the commercial banks. These accounts are funded by periodical cash advances supplied by the Treasury on the basis of cash flow estimates. Budget users make payment orders by drawing on their own accounts.

In the centralised model (now in place in Slovenia), budget users are not allowed to have their own accounts with commercial banks. There is only a single account usually kept at the central bank, which resorts under the Treasury. Since the Treasury is not allowed to borrow from the central bank, the Treasury handles borrowing by auctioning among the commercial banks. All budget users have to send payment orders to the Treasury in order to draw upon their sub-accounts.

In the hybrid model, budget users are allowed to have their own bank accounts with a single commercial bank, but the positive balances on these accounts are daily transferred to the Treasury account with the central bank and daily supplied with cash advances. The contract with the commercial bank is auctioned. Similarly, short-term borrowing is centralised at the Treasury. Budget users make payments by drawing on their own account with the commercial bank.

Both the centralised and the hybrid model realise efficiency gains through consolidation of *saldi* and centralisation of short-term borrowing at the Treasury.

funds) to negotiate better conditions for its surpluses or liquidity borrowing with commercial banks than separate legal entities could do. The Treasury can also use its extensive knowledge about market conditions.

The Treasury has organised its activities in two departments: the budget liquidity management department and the TSA liquidity management department. The first department handles the sub-accounts of the direct budget users. The second handles the TSA as a whole and is responsible for short-term deposits and loans with the commercials banks.

Budget liquidity management is divided in two key phases:

- planning and monitoring cash flows;
- managing budget liquidity.

Planning and monitoring cash flows is mainly a forecasting exercise but there is also some room for discretion. In general the Slovenian Treasury sees as the main objectives of planning and monitoring that the initial budget policy targets, especially the deficit or surplus target, are ensured and that the expenditures are smoothly financed as to minimise costs.

For the purpose of planning and monitoring cash flows, the Slovenian Treasury makes use of various cash flow planning and monitoring documents. As far as planning is concerned the starting point is the annual budget, based on the economic classification, which is broken down in monthly amounts. It is prepared after the budget has been approved by Parliament. Next an annual cash flow document is prepared on a monthly basis. It serves as a basis for the annual financing and debt management programme. During the budget year, monthly cash flow planning documents are prepared to find out temporary liquidity surpluses and shortfalls. Finally there are cash flow planning documents for a day or the next few days. As far as monitoring is concerned, cash flow documents are prepared for the rest of the year, for the rest of the month and for the past part of the year or the month. The latter documents provide a link to the accounting system (see next section). Planning documents are permanently updated in few of monitoring results. When deviations between the actual and forecasted situation analysed, questions such as: "Can deviations be explained?" and "Can they happen again?" have to be answered.

Cash flow documents have to distinguish between flows in domestic and foreign currency. In Slovenia the central bank handles external payment orders and also management of foreign currency.

If events unfold differently from expected, the room for discretion has to be used in an optimal way. Options include exploring of ways to speed up tax collection and the cutting or delaying of non-priority expenditures.

To create good quality cash flow planning documents, the Treasury makes use of historical information and past experience. Fixed payment dates are a reliable source of information. However, there are also factors such as irregular capital expenditure patterns and variation in timing that have to be considered. Uncertainty is reduced and room for discretion is used by a system of quarterly cash limits, which have to be approved by the cabinet. However, the cash flows of indirect budget users can not be controlled in this way and are more unpredictable. Since many of these funds, agencies and institutions do not make cash flow forecasts, their cash flows have to be estimated by the Treasury.

The budget liquidity management process is co-ordinated by the Liquidity Commission, in which participate: the Treasury, the Budget Department, the Debt Department, representatives of budget users, the Tax

Department and the Customs Department. The Liquidity Commission has to approve the monthly liquidity plan, the annual revenue estimates and the quarterly cash limits.

In the case of Slovenia deviations between the actual and forecasted cash flows are quite costly. The reason is that the internal Slovenian money market is relatively undeveloped compared to OECD countries, so poor quality of forecasts can have a strong effect on financing costs (commercial banks charge high interest on short-term borrowing). For this reason penalties can be imposed upon budget users that submit unrealistic proposals for monthly liquidity plans, or make last minute corrections in such plans.

The second phase of budget liquidity management consists in providing additional liquidity or investment of temporary surpluses. The TSA liquidity management department is responsible for the placement of liquid assets and liquidity borrowing for the TSA as a whole.

Apart from overnight deposits, which are relatively small at about 1% of the Treasury sub-account balance sheet, liquidity surpluses are placed to commercial banks by use of an auction system. Deposits are auctioned on the basis of the interest rate. Both deposit offers and bids are sent by e-mail.

The TSA liquidity management department also handles the central government short-term debt. For that purpose it organises the issuance of short-term government securities (treasury bills) and acts actively to foster the development of the domestic money market.

Long-term debt is managed by the Public Debt Management Department. This department also monitors public guarantees on loans provided by the private sector.

The total debt (short-term and long-term) of general government was 26.7% of GDP at the end of 2003 (see Figure 2). Of this amount, 1% consisted of debt incurred by local government and the Pension and Health Funds, and 25.7% consisted of debt incurred by the State (direct budget users). Interest is not more than 3% of central government revenue. The State debt was held at the end of 2003 for 61.2% by domestic creditors and for 38.8% by foreign creditors. Since 2002 debt is only taken up in the domestic market. At the end of 2003, the long-term domestic debt of the State was held for 96.6% by financial institutions and for 2.3% by public institutions. Enterprises and individual holders owned less than 1% of the debt. In sum, the debt situation of Slovenia gives no reason for concern.

Slovenia has an effective and transparent information system concerning public guarantees. The total amount of outstanding guarantees ultimo 2003 was about 430 billion Slovenian tollar (EUR 1.8 billion). Realisations per year since 1998 are 1 to 3% of outstanding guarantees per year (1% in 2003). Of these realisations, up to 10% have been recovered.

4.3. The structure of service delivery

The structure of public sector in Slovenia is rather complex. The State consists of the executive branch and some independent State organs, such as the judiciary, the Parliament and the Court of Accounts. The executive branch comprises the ministries. Within the ministries and under the ministerial responsibility there are some 50 bodies or agencies with some separate status. Outside the State, there are a number of public corporations with independent legal status. These include the Pension Fund, the Health Fund and some 20 other funds, institutions and agencies (roughly coinciding with the indirect budget users mentioned above). Furthermore there are some 50 "administrative units" which are regionally deconcentrated agencies of separate ministries or of combinations of ministries. Some 20 agencies and offices are directly responsible to the prime minister or to the Secretary General of the Government. A large number of public enterprises and other legal entities in which the central government has decisive influence upon the management (usually flowing from ownership of a substantial share of capital) also belong to the public sector. Apart from the central level of government, there are 193 municipalities, which can also establish independent legal corporations and own public enterprises.

This complicated structure is partially a heritage of the past. Particularly the large number of independent legal corporations seems to be a consequence of the philosophy of "self management" that prevailed in the former Republic of Yugoslavia. Similarly the large number of public enterprises is explainable by the historical development of Slovenia. However, since independence, important reform initiatives have been undertaken.

A State Public Administration Act was passed by Parliament in May 2002. The law treats the State administrative organs and administrative tasks, the separation between political and professional responsibilities of officials within ministries, a standard organisation structure for ministries and uniform position titles for officials and the relationship between public corporations and their parent ministries. At the same time a Public Agencies Act was passed. This law provides a general framework for establishing agencies with legal personality (public corporations) outside the State. It also contains provisions concerning independent regulatory agencies. An Inspections and Supervision of the Administration Act was passed by Parliament in June 2002. It provides autonomy to inspection functions, sets up specific authorities and inspection procedures, and regulates co-ordination among different inspection authorities.

Subsequent to the promulgation of the above-mentioned Acts on State Public Administration and on Public Agencies, the State Secretary for the Development of State Administration in the Ministry of the Interior has

Box 7. **Inter-governmental fiscal relations in Slovenia**

Slovenia has 193 municipalities that fulfil functions in a range of areas including: elementary education, culture, sports, social care, primary health care and other social services; public utilities, road works, housing, physical planning, environmental protection, and other similar activities; fire safety matters and protection against natural and other disasters; and other matters of local public interest such as mortuary services, tourism, agriculture, and small business promotion.

The 1998 Financing of Municipalities Act distinguishes two principal types of revenues. Articles 21 and 23 list municipal revenues where tax rates are determined by law. The most important of these is the 35% personal income tax share, which accounts for roughly three-quarters of total municipal revenue. Municipalities have more autonomy to regulate revenues under Article 22 of the Act, such as municipal rates and various fees.

In addition, municipalities might be entitled to financial equalisation from the State budget. For this purpose, the National Assembly defines an amount of "appropriate expenditure" per inhabitant of a municipality for the above listed functions when the State budget is passed. This amount is determined on the basis of a formula that is largely population based, with corrective factors that consider the length of local roads, surface area, and demographic characteristics. This yields an expenditure total for each municipality, with equalisation filling any shortfall of revenues calculated at average or legally stipulated rates. Municipalities also receive matching grants for certain investments, with the matching requirement varying on the basis of tax capacity.

Municipal debt may not exceed 10% of actual revenue in the year prior to the year of borrowing, and annual debt servicing costs may not exceed 5% of this revenue. Exceptionally, a municipality may incur a larger debt, but only for financing housing construction, water supply, and sewage or waste disposal. Public enterprises and public institutes that were co-founded by a municipality require approval to incur debts.

Source: Republic of Slovenia, *www.sigov.si/loksam/distriban/munici/locfin.htm*.

prepared secondary legislation. A Decree on the Bodies within Ministries was adopted in May 2003. It has reduced the number of currently existing bodies and rationalised their structure. A Decree on Internal Organization, Jobs and Titles, based on the State Public Administration Act as well as on the Civil Servants Act (to be treated below) was also adopted in May 2003. This decree regulates and simplifies the procedure for modifying the internal structure of ministries, whereby such decisions will be made by the minister or head of agency, not by the cabinet, within the framework of the law. It also regulates the annual staffing plan in ministries and agencies. Still pending are decisions concerning the deconcentrated "administrative units" (see above).

These reform initiatives are important and have contributed to the clarification of the legal structure of the Slovenian Government. Less clear however, remains the economic principles that have guided these reforms. It is not clear for instance, whether Slovenia aims at a separation of policy advice and execution within the ministries, such as exist in the Nordic countries and has been pursued in the Netherlands and the United Kingdom. If not, what then are the criteria for the establishment of agencies within the ministries? It is not clear either for which kinds of service provision Slovenia wants to use public corporations outside the State. Which are the economic criteria for the establishment of such corporations? Has the distinction between executive agencies inside and outside government to do with the distinction between the provision of public and private goods? In which cases are private goods provided by public agencies (inside or outside the State) and when is that task relegated to the market, possibly in combination with market regulation and subsidisation? In which cases is the provision of public goods delegated to the municipalities or outsourced to the market? Clear policies on these questions still have to be formulated.

Slovenia has taken a cautious and gradual approach towards performance oriented budgeting. It has set up a programme oriented budget classification but it has also maintained input accounts and line items. The Decree on the Bases and Procedures of Preparation of a Proposed National Budget requires that the explanations of financial plans of budget users contain physical, financial and descriptive indicators used to measure the realisation of objectives and reports on the results achieved in the first part of the current budget year (see Section 2.4 above), but the quality of these data is diverse and not much effort seems to be put in the improvement of these data across the board. Thus far Slovenia has not either introduced a government wide system of programme evaluation. Given the stage of public sector reform in Slovenia this approach seems to be prudent. The Slovenian authorities have judged that other reforms are more urgent and should have priority. However, next steps in this area should still be envisaged.

A useful next step could be the introduction of a selective procedure of programme review. Such a procedure would aim at the annual evaluation of a limited number of programmes, say from five to ten, as defined by the main programme areas of the budget. The annual selection of programmes would be decided by the cabinet on the proposal of the Minister of Finance. The procedure would have to guarantee independence and objectivity of the reviews. The reviews would have to focus on the fundamental questions about the economic organisation of service delivery as mentioned above. The

Box 8. **Procurement**

The Slovenian Public Procurement Act (2000) has two thresholds. The low threshold (for works, approximately EUR 80 000; for goods and services, approximately EUR 40 000) determines the applicability of the national procurement procedure. The high threshold is in conformity with the EU Directive and determines the applicability of the EU procurement procedure. For low value contracts (under the low threshold), the law prescribes a few basic principles of open competition. For medium value contracts (between the low and the high thresholds), the law prescribes a rather strict procedure comparable to the European procedure. For high value contracts, the law basically reproduces the European Directive.

The procurement market had a value of EUR 1.35 billion in 2001, broken down in 320 000 contracts. About 97% of these contracts fell below the low threshold of the Public Procurement Act (total value EUR 430 million). Of the remaining 3%, approximately 2.9% fell between the lower and higher thresholds (EUR 490 million) and about 0.1% above the higher threshold (EUR 430 million).

A Central Public Procurement Organisation has been set up under the Secretary General of the Government (in the Office of the Prime Minister). It is staffed by nine employees. The Cabinet appoints its director. Its responsibilities include legal development, advice to purchasing units, capacity building, international co-operation and statistical data collection. Remedies are regulated by the Act on the Review of Public Procurement Procedures (1999). It provides for a two-stage procedure for the review of complaints. The first stage provides for an internal review procedure, in which the complaint must be addressed to the tenderer and in which an external procurement expert is required to submit an opinion. The second stage is a semi-judicial procedure before an independent National Review Council organised under the Parliament. The Secretariat of the Council consists of eight experts and administrative staff. The National Review Council reviews approximately 300 cases per year of which about 15-20% concern cases under the low threshold.

In a recent report by SIGMA,[1] the review procedure was assessed as very effective. It advised to restructure the Public Procurement Act which was considered as somewhat confusing, and to reform the procedure for medium value contracts which was considered as too rigid and conducive to evasion (by breaking up contracts in smaller parts).

1. Public Procurement Review – Slovenia Report: June 2003, *www.sigmaweb.org/libpubs/pubslovenia.htm*.

reviews could also make proposals about the improvement of indicators. These indicators would have to focus on the quantity and quality of service provision, rather than on the more arbitrary realisation of objectives (or the even more arbitrary contribution of the programme to the realisation of objectives). Programme review procedures of this kind exist in Denmark, the Netherlands and the United Kingdom and have been relatively successful.

4.4. Human resource management

Public employment in Slovenia is regulated by two basic laws: the Civil Servants Act passed by Parliament in June 2002 and the Law on Salary Systems for the Public Sector passed by Parliament in April 2002. These laws replaced the former Law on Workers in State Organs (1990), and the Law on Relations of Salaries in State Organs, Local Communities' Organs and Public Institutions (1994). The new laws aim at a general modernisation of the civil service.

The Civil Servants Act is divided in two parts. The first part regulates common elements of public employment for the whole public sector except public enterprises: central and local government, the health sector, the social security sector, educational institutions and other public corporations outside government. The second part regulates in particular the sectors of central and local government. Specific bodies are regulated additionally by specific laws: Law on Police, Law on Defence (for the military), Law on Foreign Affairs (for the diplomatic corps) and Law on the Judicial Service.

Total employment in the public sector, except public enterprises, amounts to roughly 150 000 employees, which represent 17% of the active population. The second part of the Civil Servants Act applies to about 35 000 employees of which some 15 500 in the ministries, 2 000 in the independent State organs (Parliament, Presidency, Courts, Court of Audit, etc.), 3 000 in the municipalities and the remainder in other public corporations.

Subsequent to the promulgation of the Civil Servants Act, a number of pieces of secondary legislation were adopted. These decrees deal among other things with the systematisation of positions, ranks and titles, incompatibilities, disciplinary offences, evaluation of performance, restrictions on receiving gifts, employment plans, and examination of competences in public administration and technical work requiring special expertise.

The Civil Servants Act divides the civil service into two main groups: "officials" and "professional-technical public servants". Officials will occupy what the text refers to as "positions" (managerial posts). Positions will be determined by government decree. Officials will be appointed for a period of five years, they are selected through public competition and they are classified in grades of several classes according to the level of education required. Positions are classified in several categories such as secretary general, director general and heads of administrative units. The number of officials in ministries is currently about 5 500. The professional-technical public servants are classified by a separate decree. Their number is currently about 10 000.

The Civil Servants Act aims at the creation of a professional civil service and a strict separation of political officials and civil servants. The civil service must carry out its duties in strict conformity with the Constitution and the law and in a strictly impartial way. The law prohibits civil servants to take part in any activity that would affect their impartiality or objectivity, create a risk of misusing information, affect negatively their efficiency or effectiveness or harm the reputation of their employer.

In practice, the situation evolves gradually. Until recently the higher layer of the Slovenian civil service used to be politicised to a certain extent. Presently, civil servants cannot be dismissed for political reasons but generous compensation in the form of severance pay is sometimes used to ease the situation. It is important that in the coming years the efforts aimed at professionalisation and depolitisation of the civil service are pursued with great energy and perseverance.

A Government Office for Prevention of Corruption, attached to the Prime Minister, was created in 2001. The Office is meant to act as an independent expert service, which advises the government about policies against corruption, prepares a national anticorruption strategy and ensures its implementation. The Office is staffed by a small number of experts. It does not investigate cases but forwards them to the police or the public prosecutors. The most common complaints received by the Office relate to building permits, public procurement and police abuses. In general, the record of Slovenia concerning the prevention of corruption is good.

An area that merits special attention is the legislation concerning public employees outside central and local government. So far the modernisation of this legislation seems to lag somewhat behind. It is important that reform in this domain is pursued with vigour, because there are indications that corrupt practices in for instance the health service are not entirely extinct.

Until recently the system of salary scales in the public sector was not transparent. Salaries were negotiated for many different groups of public employees with 18 different trade unions. There was a proliferation of special allowances and additional wage components for different groups. A new Law on Salary Systems for the Public Sector was passed by Parliament in April 2002 and went into effect in the beginning of 2004. However, implementation of the law is partly dependent on negotiations with the trade unions. The law is applicable to the entire public sector, except public corporations outside the State and the municipalities. The new law fixes the salary components as basic salary, performance bonuses, and supplements. Basic salary will comprise many previous special components. The number of supplements has been reduced to eight (previously 80) and is defined by law. They refer to position, length of service, special expertise and academic degrees, command of foreign languages, difficult working conditions, dangerous or specific tasks, overtime and night shift work. There are 65 classes of basic salary from the President of the Republic to the lowest paid public employee, and encompassing mayors and members of municipal councils. The new system makes it possible to increase salaries of public employees in ten steps in a three-year cadence without promotion to a higher position. This provision is intended to correct the previous situation that employees were promoted for the sole reason of increasing their salaries. Performance bonuses, fixed at a maximum of two month's basic salary, are to be awarded twice a year. The criteria for payment of bonuses are established in the Civil Servants Act and will be further determined through negotiations with the social partners. Recently agreement was reached with the trade unions about next steps in the implementation of the law (see Section 1.2).

The Civil Servants Act makes performance appraisal and training the only criteria for promotion for officials. The envisaged performance assessment system is still in development and not yet fully implemented.

The Civil Servants Act aims to promote horizontal mobility within ministries and between ministries, but until now mobility between ministries is still limited.

Training for public employees is the responsibility of the Minister of the Interior. The Administrative Academy, attached to the Ministry is in charge of delivering training programmes.

The Government Personnel Office is answerable to the Secretary General of the Government. It is the civil service information system at the central level. It has a staff of about 40. Its main responsibilities are: appointments and nominations, organisation, personnel information service, co-ordination of human resource management across ministries and agencies, secretariat of the Civil Service Council. The Civil Service Council was created by the Civil Servants Act. It will set standards for managing officials (directors general, secretaries general and heads of agencies and divisions) and will nominate recruitment commissions for such positions.

The Government Personnel Commission, composed of ministers and secretaries general, nominates senior officials, assigns salaries to individual officials, decides on promotions of officials, authorises job descriptions proposed by ministries and co-ordinates personnel departments of ministries.

It is chaired by the Vice Prime Minister or the Secretary General of the Government and meets every week.

The Administrative Personnel Information System (APIS) contains information on staff numbers and personnel costs. This system is still in development. Until recently software concerning personnel information in the Government Personnel Office and in personnel administrations of ministries and agencies was not fully compatible which hampered the development of APIS. A fully operational central information system is not only relevant for human resource management but also for the budgetary control of personnel expenditures. It is therefore important that priority is given to additional efforts in this area.

4.5. *Conclusions*

The detailed account structure of the Slovenian budget makes reallocation during budget execution inevitable. The annual Law on Budget Execution makes such reallocation possible without recourse to supplemental budget legislation. On the other hand this law adds a layer of regulations to the already quite involved and complicated legal framework of the Slovenian budget process. The Slovenian authorities may consider eliminating this law, by transferring its more permanent provisions to the Public Finance Act, while simultaneously simplifying the account structure of the budget.

Slovenia has centralised its system of cash and debt management by introduction of a Treasury Single Account (TSA). The TSA has led to substantial efficiency gains. The system is well organised and functions properly. It is important that indirect budget users take more responsibility for their own cash flow forecasts. This reform could be part of a more encompassing reform aimed at the consolidation of the budget of the central government (see Section 2.5).

The structure of the Slovenian public sector is quite complicated. It has evolved from historical circumstances and is at present not based on clear principles. In the domain of service delivery there is clear scope for further reform.

Slovenia has an effective system of procurement contract review. The transparency of the Slovenian Public Procurement Act needs to be improved and procedures for medium value contracts need to be modernised.

Slovenia has in the last years made big steps forwards in civil service reform, particularly in the areas civil service remuneration policies, training facilities, recruitment and promotion policies. However, the aims are not yet fully achieved. It will be important to keep up the pace and to maintain these reforms at the top of the political agenda.

The Slovenian authorities may consider giving more priority to the development of a transparent and consolidated personnel information system in the public sector.

5. Accounting and audit procedures

5.1. *Accounting*

Until 2000 the old Yugoslav accounting legislation remained in force in Slovenia. In 1999 a modernisation process led to the adoption of a new Accounting Act. The Act prescribes cash based accounting for the Slovenian public sector (Article 15). A uniform Chart of Accounts has been introduced for all direct budget users. The Accounting Department of the Ministry of Finance is actively considering the potential benefits and pitfalls of moving towards accrual accounting. Slovenia pursues a pragmatic approach which includes actively following and participating in debates on accrual accounting in the public sector. Officials stated that a switch to accrual accounting is less of a technical problem but rather an issue of "mentality" with users of accounting information.

Bookkeeping is centralised in the Accounting Department of the Ministry of Finance. Only the defence and interior ministries as well as the courts run their own accounting services. The Accounting Department communicates with the accountants of direct budget users through a weekly bulletin that summarises all relevant transactions. A 1995 government resolution required the introduction of uniform accounting software for all direct budget users as a basis for a unified accounting system. This software was introduced in 1998 and has been rolled out to about 4 000 users. The software is designed in such a way that it disallows entries by direct budget users if they would result in expenditures in excess of authorised amounts. There is also a central check on relevant documentation, for which requirements vary depending on different categories of expenditures. Officials stated that the documentation submitted by direct budget users has improved in recent years.

The government is actively broadening training capacity for accountants in the public sector in order to address a shortage of relevant skills. A recent initiative is the creation of the Center of Excellence in Finance, which offers a two-year certified public accountant programme with support from international donors and accreditation by a London-based institution.[13] For public sector employees with lower entry qualifications, a complementary continuing education initiative has been initiated.

The timeliness and quality of financial statements has been substantially improved in recent years and as a result of these initiatives. The Public Finance Act now requires direct budget users to submit draft financial statements to the Ministry of Finance by the end of February of the year following budget execution (Article 97). The act also requires submission of the annual financial statements for external audit by the end of March. In recent years this deadline has not been missed significantly. Previously, at the time when a range of different accounting systems were still in use, there were frequent delays of up to one year in the preparation of financial statements and their quality was much poorer.

5.2. External audit

The annual financial statements are submitted to the Court of Audit of the Republic of Slovenia (CARS). Article 150 of the Constitution establishes the CARS as Slovenia's supreme audit institution (SAI) and gives it the mandate to supervise State accounts, the State budget and all public spending. It also requires legislation to regulate the organisation and powers of the CARS and enshrines its independence in the performance of its duties.

Table 3. **The timeliness of accounting and audit, 1994-2003**

Fiscal year	Submission of financial statements	Finalisation of audit report
1994	27 July 1995	3 February 1997
1995	31 December 1996	21 August 1998
1996	6 June 1997	3 March 1999
1997	23 June 1998	18 October 1999
1998	20 July 1999	27 July 2001
1999	16 May 2000	29 December 2000
2000	11 April 2001	21 December 2001
2001	5 April 2002	5 September 2002
2002	31 March 2003	9 September 2003
2003	1 April 2004	25 September 2004[1]

1. Preliminary estimate.
Source: Court of Audit of the Republic of Slovenia.

The CARS was founded in 1994 and started operating in the following year. A significant reform was carried out with the introduction of new framework legislation for the CARS in 2001. The new Court of Audit Act lays the foundation for a shift away from the court type towards the office type of public sector audit.[14] The new institutional setup has been influenced by the United Kingdom National Audit Office (NAO), which has supported the evolution of the CARS through twinning programmes. The President of the CARS is described by the Court of Audit Act as the State Auditor General of Slovenia (Article 12). It appears that the label of the Slovenian SAI as a "court" was only retained due to a translation error.

The Court of Audit Act governs the appointment of the President of the Court and two Deputies by the National Assembly for nine-year terms, which may be extended once. The new act enshrines the independence of the CARS and also significantly clarifies the audit procedure, focuses the reporting obligations of the court on the National Assembly, and establishes strong follow-up procedures, among other improvements. Officials from the CARS confirm that the court's functional independence is respected in practice. The budget allocation of the CARS has been sufficient; in fact, it has under-spent in the past three years. Officials from the CARS explained that one constraint is that the prerequisite skills are scarce and difficult to recruit and retain, as pay conditions for auditors in the public sector are not as attractive as in the private sector. Overall, however, the independence of the CARS is safeguarded by a constitutional mandate that is complemented with a modern legal framework and sufficient financial resources.

The CARS has the mandate to audit financial statements for regularity and it may also carry out performance audits. In 2003 it produced a total of 65 reports, 11 (or 17%) of which were classified as performance audits.[15] The Court of Audit Act prescribes that the CARS shall independently decide its own audit programme (Article 25). However, the CARS has to consider proposals made by Parliament, government and local authorities. More specifically, the CARS must consider at least five proposals from the National Assembly from which at least two must be from opposition Deputies and a further two from its "working bodies", *i.e.* standing committees or commissions (see next section). The Court of Audit Act prescribes that when a draft audit report has been finalised, it is subject to a clearing meeting with the auditee in which disputed findings may be discussed (Article 28). Ultimately, the CARS is responsible for the content of audit reports, and its officials reported that clearing meetings typically take place in a co-operative atmosphere.

The CARS is obliged by the Public Finance Act (Article 97) to produce its report on the government financial statement by 1 October of the year following the execution of the relevant budget. Improved timeliness in the preparation of financial statements has had a positive knock-on effect on the timeliness of audit reporting, and in recent years the main audit report has been finalised within the deadline stipulated in the Public Finance Act. In addition to its report on the financial statements, the CARS may report other findings that are not subject to specific deadlines. All reports are publicly available on the CARS Internet site[16] and submitted to the National Assembly, which initiates a process of review that is further discussed below.

One of the innovative new aspects introduced with the new Court of Audit Act is the post-audit procedure (Article 29). In an audit report the CARS may request the auditee to submit a report that outlines any remedial steps that were initiates to address disclosed irregularities and inefficiencies. The time limit for such a response report, which is an official document, is 30 to 90 days. The exact content of the response report is defined by the Rules of Procedure of the CARS. The CARS then proceeds to assess the credibility and adequacy of the response report and measures taken, and reports on its findings in a post-audit report. If the obligation of operational efficiency is deemed to have been severely violated, the President of the CARS can issue a call for the dismissal of the responsible official as well as a press notice. Officials reported that in 2003 the CARS requested a response report in about one quarter of its issued audit reports. In about 80% of cases the remedial measures undertaken were deemed satisfactory, and in about 20% of cases the CARS attested a violation or a severe violation of operational efficiency.

5.3. Parliamentary accountability

In addition to its standing committees, the National Assembly can establish commissions to examine specific common issues or individual matters. One of these bodies is the Commission for Budgetary and Other Public Finance Control, which was established by a resolution of the National Assembly in 2000. The commission has a total of nine members. As is convention with Public Accounts Committees in many other countries, the chairperson is a member of the opposition. The Rules of Procedure of the National Assembly give the commission the mandate to supervise the implementation of the State budget, the budgets of the pension and health funds, the public broadcaster, local authorities and public enterprises on the basis of reports from the CARS. It is also to discuss relevant draft laws. The commission reports to the National Assembly and proposes necessary measures.[17] The annual financial statement on the State budget and the relevant audit report are subject to a discussion in the commission as well as a plenary session of the National Assembly.

The actual capacity of the commission for audit scrutiny is extremely limited. The commission convenes on average about once a month. As its members serve on various other working bodies of the National Assembly, they have to juggle different demands and commitments. In addition, because meetings of working bodies may not overlap, there is only time to consider a small fraction of reports produced by the CARS. As a result, the commission discussed only 6% of all audit reports in 2002 and 10% in 2003. During public meetings on audit reports, officials from the CARS explain their main findings and a representative of the relevant auditee responds.

In practice, interaction between the CARS and the Commission for Budgetary and Other Public Finance Control has been largely dysfunctional, partly because of apparently poor relations between the previous chairperson of the commission and the former President of the CARS.[18] This state of affairs may explain why the commission has focused much of its attention on criticising the CARS and its working methods rather than using audit findings to scrutinise governmental compliance and performance. It remains to be seen whether recent changes in personnel in both institutions will result in an improved working relationship.

5.4. *Internal financial control and audit*

A budgetary inspection unit existed in the Ministry of Finance from 1995, but in 1999 the EU accession process required central harmonisation of internal financial control and audit. The Budget Supervision Service in the Ministry of Finance was set up in 2000 and recently renamed as the Budget Supervision Office. This office exercises a number of control functions relating to EU funds and interests, carries out budgetary inspections based on requests from spending ministers or whistleblowers, and plays a co-coordinating function relating to internal financial control and audit.

The section on Public Internal Financial Control issues guidelines for internal audit in the public sector and produces an annual report. In 2003 a certificate programme for public sector internal auditors was introduced in co-operation with the CARS. Slovenia's emerging system of internal audit is decentralised. Responsibility for setting up and running an appropriate system of public internal financial control rests with the heads of direct and indirect budget users. There are about 40 internal auditors distributed across the different direct budget users. At the local government level the function is less entrenched, and some authorities are running shared internal audit units or outsource the function. Internal auditors draw up audit plans based on a risk assessment. About one third of investigations by internal auditors are carried out on request of the responsible minister. In an annual report to the central unit in the Ministry of Finance, the results of these audits are presented together with a response from the relevant ministry.

As the internal audit function is still young, its role is perhaps not yet fully entrenched and appreciated. There have been incidents where the central unit was asked to mediate conflicts between internal auditors and spending ministries. At the same time, the independence of internal audit is safeguarded by the fact that the central unit has to be notified if the head of an internal audit unit is appointed or dismissed.

The Budgetary Supervision Office also has a Budgetary Inspectorate that can investigate complaints and anonymous reports from whistleblowers. Spending ministers often request the unit to investigate indirect budget users under their jurisdiction. In carrying out inspections, an inspector is independent and personally responsible for any findings. An inspection report is sent to the relevant minister, with a 15-day period within which objections to the findings may be lodged, which is not common in practice. The inspectorate can order activities to be halted and, in cases involving indirect budget users, demand wrongly applied funds to be returned to the relevant direct budget user. Officials indicated that one problem area is procurement, where proper procedures are often disregarded and an "urgent" procedure with less onerous requirements is frequently applied in order to circumvent due process. Another typical tactic, which is not unique to Slovenia, is for contracts to be broken up into smaller units in order to evade proper procurement procedures. Salaries and travel costs are other areas of concern.

5.5. *Conclusions*

Improvements in the quality and timeliness of accounting in recent years are substantial, and provide a strong basis for *ex post* accountability. In the medium term, further improvements might be possible so that the audited financial statements can be presented to Parliament within six months after the end of the fiscal year, as is practice in many OECD countries.[19] Slovenia's pragmatic approach to the adoption of accrual accounting is sensitive to the needs of users of accounting information.

The CARS has undergone an impressive evolution towards an Auditor-General type SAI that is based on a modern legal framework and sound procedures. However, the new external audit system has yet to settle down and there would seem to be a disjuncture between the domestic and international recognition of the CARS. It appears that a move back to the court model of SAI is now actively being considered within the CARS. Such a move would most likely unsettle the institutional consolidation of the external audit function.

The use of audit findings for parliamentary scrutiny has been sub-optimal. A large volume of audit information that could be harnessed to improve government efficiency and performance is not used by Parliament. This is a crucial defect, as the office model of State audit is predicated upon sound and continuous interaction between the audit institution and the relevant parliamentary body.[20] One institutional reason is that the parliamentary schedule leaves little time for the Commission for Budgetary and Other Public Finance Control to adequately cover a more substantial number of audit reports. To overcome this bottleneck, Parliament might consider the upgrading the status of the commission to a specialised Public Accounts Committee in a way that allows more regular sessions throughout the year. Moreover, it appears that mediation between the commission and the CARS is urgently required to establish co-operative relations and to co-ordinate the flow of audit reports to Parliament throughout the year.

Notes

1. This survey was prepared shortly before new elections for the National Assembly were to be held in October 2004.
2. A third alleged advantage of fixed frameworks, namely that they facilitate the task of the Minister of Finance during budget negotiations, is less relevant for Slovenia because the position of the Minister of Finance is strong anyhow.
3. This distinction is relative though. In Slovenia the second year budget can be amended in the year after it has been established. Fixed frameworks usually have sub-ceilings for budget sectors or ministries, which also can be changed from year to year. The only difference, but an essential one, is that the ceiling of total expenditures of fixed frameworks is unalterable from year to year.
4. The object of adoption by the National Assembly is only the estimates for the budget year (Article 10, paragraph 6 of the Public Finance Act).
5. On the other hand, the Budget Memorandum contains multi-year estimates and a higher level of aggregation than the line item level (see Section 2.4).
6. Article 20 of the Decree on the Bases and Procedures for Preparation of a Proposed National Budget.
7. Article 14 of the Decree on the Bases and Procedures for Preparation of a Proposed National Budget.
8. Article 24 of the Decree on the Bases and Procedures for Preparation of a Proposed National Budget.
9. The budgetary role of the Slovenian Parliament in the past decade is discussed in Lance T. LeLoup (2004): "Uloga parlamenata u odredivanju proracuna u Madarskoj i Sloveniji" [Parliamentary Budgeting in Hungary and Slovenia], *Financijska teorija i praksa,* Vol. 28, No. 1, pp. 49-72. An English version of the paper is available at *www.internationalbudget.org/resources/library/hungslovbud.pdf*.
10. OECD (2001), "Best Practices for Budget Transparency", *OECD Journal on Budgeting*, Vol. 1, No. 3, p. 8: "The government's draft budget should be submitted to parliament far enough in advance to allow parliament to review it properly. In no case should this be less than three months prior to the start of the fiscal year. The budget should be approved by parliament prior to the start of the fiscal year."
11. *Ibid*., p. 9: "A pre-budget report serves to encourage debate on the budget aggregates and how they interact with the economy. As such, it also serves to create appropriate expectations for the budget itself. It should be released no later than one month prior to the introduction of the budget proposal."
12. A Slovenian tollar is EUR 0.0043.
13. *www.cef-see.org/*.
14. Rick Stapenhurst and Jack Titsworth (2001), "Features and Functions of Supreme Audit Institutions", *PREM Notes* No. 59, World Bank, Washington DC.
15. Court of Audit of the Republic of Slovenia (2004), *Annual Report 2003*, Ljubljana, p. 12.
16. *www.rs-rs.si*.
17. National Assembly (2003), *Commission for Budgetary and Other Public Finance Control*, Ljubljana.

18. This tension is the subject of the Foreword by the then President of the Court of Audit in the 2002 Annual Report issued by the CARS.

19. OECD/World Bank (2003), *Results of the Survey on Budget Practices and Procedures*, question 4.5.l; available at *http://ocde.dyndns.org/*.

20. David G. McGee (2002), *The Overseers: Public Accounts Committees and Public Spending*, Commonwealth Parliamentary Association and Pluto Press, London.

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