

Managing and Prioritising Public Finances and Budget in Support of Strategic Development in the Slovak Republic: A Targeted Budget Review

This review looks at how the budgeting and public financial management system, as managed and co-ordinated by the Ministry of Finance, effectively supports Principles 2 and 3 of the OECD Recommendation on Budgetary Governance (2015). This report is divided into four sections providing recommendations at the end of each based on the OECD Principles of Budgetary Governance.

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Foreword

In 2018, the Slovak Republic requested the OECD to undertake a targeted budget review focusing on the managing and prioritising processes of the budget in support of achieving strategic development objectives in the Slovak Republic. The targeted request resulted from a comprehensive Slovak-OECD project “Developing the Intervention Logic of Strategic Planning by Central Government Authorities” that supports the Slovak Republic to improve the governance tools and frameworks in place for the efficient implementation of its national strategy, and in particular the Sustainable Development Goals. An outcome of the project was the recognition of the fundamental role of public financial management and, in particular, the role of the budget to implement and finance national plans and infrastructure investment.

Conducted through the OECD Network of Senior Budget Officials, the targeted budget review follows a similar process to a full budget review but focuses on a subset of budget principles that are particularly relevant to the country at a specific point in time. This targeted budget review focuses on Principles 2 and 3 of the OECD Recommendation on Budgetary Governance (2015), specifically to, “closely align budgets with the medium-term strategic priorities of government”, and to “design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner”.

This review looks at how the budgeting and public financial management system, as managed and co-ordinated by the Ministry of Finance, effectively supports the two Principles. It considers the extent to which medium-term expenditure aligns to Slovakia’s¹ national goals, the planning and prioritisation process of capital investment, and the adequacy of the programme budgeting system for this purpose.

The review concludes that Slovakia has made significant progress towards aligning its budget to the government’s medium-term strategic priorities, most notably the establishment of the Value for Money (VfM) initiative and the formulation of a national investment plan with a long-term planning horizon. The review identifies concerns about the effectiveness of the system for longer-term strategic development and suggests a set of adjustments to the budget process. The adjustments refer to robust and reliable medium-term expenditure planning; collective fiscal responsibility and priority setting; high-quality performance information; a strong evaluation function; and enhancing co-operation across Ministries by sharing of expertise and identifying a system to implement the National Infrastructure Plan.

Abbreviations and acronyms

BIS	Budget Information System
CAP	cross-agency priority
CBA	Cost-Benefit Analysis
CBR	Council for Budget Responsibility
DPMO	Deputy Prime Minister's Office on Digitalisation and Informatisation
EU	European Union
FPI	Financial Policy Institute
GAO	US Government Accountability Office
GDP	Gross Domestic Product
GG	General Government
GGB	General Government Budgets
GPRA	Government Performance and Results Act
GPRAMA	Government Performance & Results Act (GPRA) Modernization Act of 2010
IU	Implementation Unit
LOLF	Loi organique relative aux lois de finances
MTEF	Medium Term Expenditure Framework
MOF	Ministry of Finance
MTO	Medium Term Objective
NIDP	National Infrastructure Delivery Plan
NIP	National Infrastructure Plan
NPC	no-policy change
NRP	National Reform Programme
OMB	Office of Management and Budget
PIC	Performance Improvement Council
PMO	Prime Minister's Office
RIA	Regulatory impact assessments
SAO	Supreme Audit Office
SDGs	Sustainable Development Goals
SEA	Strategic Environmental Assessment
SGP	EU Stability and Growth Pact
SOE	State Owned Enterprise
SPU	Stability Programme Update
STDP	Strategic Transport Development Plan
UN	United Nations
VfM	Value for Money

Executive Summary

Since 2016, the Centre of Government of the Slovak Republic has worked to set a vision for national development priorities, with stable investment planning and resourcing for sustainable economic growth. To support the Slovak Republic deliver on these goals, this targeted review considers the Slovak budget framework, the application of that framework in a medium-term budget process, and the role of the performance and evaluation framework in relation to the budget process. The purpose of this focus is to consider the extent to which medium-term expenditure aligns to the country's national goals, the planning and prioritisation process of capital investment, and the adequacy of the programme budgeting system.

Budgeting framework

The foundational document of the medium-term budget in Slovakia is the EU Stability Programme and the National Reform Programme is the main reference document for the government's strategy. However, these programmes guide rather than align to budget decisions. Ways to strengthen the alignment in the context of the medium-term expenditure framework (MTEF) would be to establish a binding allocation or 'ceiling' on expenditure and at the same time support the ceiling with baseline estimates of expenditure across the same period. The purpose of these two recommendations is to establish greater certainty on the allocation of funding over the medium-term and to inform the allocation decisions with baseline information from ministries and agencies. As such, the recommendations in this report aim to strengthen the top-down and bottom-up provision of information within the MTEF.

The decision making process could be strengthened by introducing a pre-budget strategy debate before the Cabinet makes decisions on budget allocations. The purpose of a debate would be to inform the government's decision-making and to enhance the collective responsibility for the performance of the MTEF. In general, adopting a more participative approach within the government to setting (and evaluating) budget objectives should be considered as a standing feature of the budget process.

Planning and prioritisation process for capital investment

Slovakia's plan to reduce its dependency on EU funds may lead to challenges in terms of planning its capital investment. In general, capital expenditure in the Slovak Republic is well integrated into the General Government budget process, however, around 57% of capital expenditure by the Slovak Government is funded by EU funds and is subject to a separate system for planning, resource allocation, disbursement, monitoring and evaluation.

Building on recent improvements, the government should focus on its co-ordination of medium- and long-term planning for capital investments. The OECD understands the Deputy Prime Minister's Office for Investments and Information is developing a National Infrastructure Plan (NIP). Introducing tools to plan and prioritise infrastructure projects at a sector level will likely help improve co-ordination and the implementation of the NIP. Recent reforms have strengthened the project assessment and evaluation process. A next step will be to monitor and report on the implementation of the NIP and to ensure the systems are connected to the budget process.

Performance and Evaluation

In 2004, Slovakia introduced a programme budgeting framework. Similar to other OECD countries, programme budgeting in Slovakia follows a "presentational performance budgeting" approach, that is, it provides supplementary information to increase the transparency of the budget to help parliament and citizens understand the objectives of public spending and the results achieved. However, the framework makes a limited contribution to strengthening accountability and informing budget decisions. The government should consider how it could integrate the use of performance information into the budget

process, so it can inform the allocation and prioritisation of public resources within line ministries and across the government as a whole. An integrated approach that connects performance information to budget decisions would better support the alignment between the annual budget allocations, the medium-term expenditure framework and the national development priorities of the government.

In Slovakia, line ministries and agencies are encouraged to monitor and evaluate programmes on voluntary basis and there are few incentives to undertake evaluations. A systematic approach to evaluation and *ex-post* assessments could inform the importance of well-defined objectives and indicators; highlight which measures impact on a Sustainable Development Goal or national goal; and provide feedback for decision making. The government should consider ways to introduce focused assessments of the impact of its policies. Effective ways to achieve this include developing a more cross-cutting vision into the spending review process and strengthening the role of the Supreme Audit Office.

Box 25. Summary of key recommendations

Strengthen the Slovak budgeting framework for robust and strategic medium-term planning by:

- Introducing baseline estimates of expenditures over the three-year medium term to support the information available to set credible expenditure ceilings.
- Regularly updating baseline estimates within a single budget year.
- Including baselines in the automatised Budget Information System.
- Ensuring time, space and sequencing process for interdepartmental engagement to agree on the expenditure baselines.

Prepare for the transition from EU funding of capital investments by:

- Strengthening the governance framework for capital investment, including planning, allocating, monitoring and evaluating processes and capacities.

Reinforce the medium-term dimension for stable budget planning by:

- Introducing a strategy debate into the budget cycle to enhance collective fiscal responsibility and priority setting.
- Making expenditure ceilings for total expenditures and ministerial envelopes binding.

Link strategic infrastructure planning to the budget process by:

- Enhancing co-operation across ministries and sharing of expertise.
- Ensuring a top-down approach of the development of the NIP to ensure the strategic prioritisation of infrastructure projects.
- Identifying and managing major future risks and uncertainties in infrastructure planning.
- Implementing a system to monitor the implementation of the NIP.
- Linking strategic infrastructure planning with fiscal planning.

Improve the alignment of performance information to strategic goals by:

- Ensuring that performance information is collected and can be relevant and useful for budget formulation, parliamentary debates and oversight.
- Encouraging parliamentary engagement to build demand for performance information by ensuring sufficient time and dedicated capacity.

Strengthen the evaluation function of the government to demonstrate progress toward strategic objectives by:

- Standardising spending reviews as a tool for performance evaluation and eventually informing medium-term expenditure ceilings

Establishing a co-ordinated system and the necessary capacities for monitoring, evaluation and quality control.

1. Introduction

Since 2016, the Deputy Prime Minister's Office for Investments and Informatisation of the Slovak Republic has been working to set a vision for national development priorities, with stable investment planning and resourcing for sustainable economic growth. In July 2018, the Government presented its Voluntary National Review on the implementation of the 2030 Agenda for Sustainable Development Goals at the United Nations High Level Political Forum. The Review outlined six priorities for the implementation of the Sustainable Development Goals (SDGs) in Slovakia, including education, transformation towards an environmentally sustainable and knowledge-based economy in the context of demographic change, sustainability of settlements, regional development in the context of climate change, social inclusion and tackling health disparities.

To deliver on these priorities and to achieve national goals, a joined-up approach is required. The priorities are to be integrated into a long-term national development strategy and into sectoral policies and investment plans, in order to ensure a whole-of-government approach and adequate financing. This involves institutional leadership from the centre of government, a close working partnership with the Ministry of Finance, active engagement of line ministries and agencies, and accountability to parliament, audit institution and civil society.

Slovakia has developed tools to align its budget to the government's medium-term strategic priorities, most notably the establishment of the Value for Money (VfM) initiative and the formulation of a national investment plan with a long-term planning horizon. Despite these improvements, the government is concerned about the effectiveness of the system concerning longer-term strategic development. In particular, the programme budgeting system, the medium-term expenditure framework and the planning and prioritisation process for capital investment have been identified as key areas for improvement.

The OECD has provided assistance on strategic planning to the central government authorities of Slovakia. One of the deliverables included a report by the OECD on the 'legal and institutional framework at the central level for strategic planning', including in the context of a National Investment Plan and implementation of Agenda 2030.

This report is the result of an assessment of current framework and processes in place for setting national priorities, with a particular focus on investment planning. More specifically, it focuses on the OECD budgetary governance Principle no. 2, which calls on governments to "closely align budgets with the medium-term strategic priorities of government", and Principle no. 3, "design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner".

Section two describes the budget framework in the Slovak Republic and compares features in the framework to other OECD countries. Section three explores the medium-term dimension of the budget process and how it supports government priorities. Section four explores current practices in performance budgeting, highlights progress under the value for money initiative, and identifies ways to strengthen the use of performance information in the budget process. This report provides recommendations at the end of each based on the OECD Principles of Budgetary Governance.

2. The Slovak budgeting framework

2.1. Summary

A well-defined budget framework is essential to ensure that the allocated resources contribute to the government's strategic priorities within the limits of fiscal targets. The Slovak budget system has a sound legal and constitutional grounding, which includes the roles and responsibilities of the executive and legislature for the formulation and execution stages of the budget. The introduction of the Constitutional Act on Budget Responsibility 493/2011 supported the long-term sustainability of public finances, transparency and efficiency of public spending. In particular, the establishment of the Council for Budget Responsibility (CBR) was a key advancement for monitoring and evaluating compliance with the fiscal rules and enhancing fiscal transparency.

The budget framework in the Slovak Republic is closely aligned to the requirements of the EU Stability and Growth Pact and the Two Pack. In general, the budget process follows OECD best practices, but the system could be further strengthened by having a clear identification of expenditure ceilings and strategic budget functions based on baseline analysis over the course of the annual and multiannual budget cycle. Despite recent improvements, including the reformed preparation and evaluation process of large investment projects, the system for the medium and long-term planning for capital investments could also be strengthened.

This Chapter comments on the Slovak legal system; describes the country's annual and multi-annual budget processes; and discusses the role of capital expenditure in the budget process.

2.2. Slovak legal foundation for the budget process

The **Act on the General Government (GG) on the Budgetary Rules of Public Administration 523/2004** is the main document for budget formulation and execution. The Act regulates the budget process, budget management rules, and the roles and responsibilities of the Ministry of Finance and other legal entities involved in the budget process. In 2011, the Act was amended in line with the EU Stability and Growth Pact (SGP) and the Two Pack (Box 26). It created the statutory basis for a balanced budget, defined as a structural deficit equal or lower than 0.5% of GDP, set in accrual terms, which is the same as the Medium Term Objective (MTO) presented in the 2018 Slovak stability programme. The Act also contains a corrective mechanism in case of deviation from the medium-term objective or the trajectory, including expenditure limits for the time of correction. However, multi-annual expenditure and revenue indicators are not mandatory.

Box 26. Slovakia and the EU Fiscal Framework

As a member of the European Union (EU), Slovakia must comply with the 3% limit on the general government (GG) deficit and the 60% ceiling on GG debt. The Slovak Republic is also bound by the EU Stability and Growth Pact (SGP), which requires that public finances are managed “close to balance or in surplus” over the medium term. Slovakia is subject to the more recent strengthened EU economic governance framework (Six-pack and Two-pack) and is a signatory to the Fiscal Compact Treaty, which embodies and clarifies the various EU economic governance rules.

Slovakia's domestic national fiscal strategy is closely aligned to EU rules. According to the 2016 Government's manifesto, Slovakia's fiscal policy strategy aims to achieve a balanced budget by 2020.

As a member of the Euro-area, Slovakia submits a “Stability Programme Update” (SPU) to the EU in April, setting out the country's Medium Term Objective (MTO) and associated economic analyses,

which are updated every year. The stability programme, prepared by the Ministry of Finance, presents macro fiscal policy scenarios and identifies the financial priorities to be addressed in a given three-year period. At the same time, Slovakia submits a “National Reform Programme” (NRP). The NRP is one of the country’s main strategy documents, mapping the country’s stability programme and the manifesto of the government. The Deputy Prime Minister Office for Investments and Informatisation and the Ministry of Finance co-ordinate the NRP.

Source: Ministry of Finance; OECD (2018^[23]), EC (2018^[2])

The Constitutional Act on Budget Responsibility 493/2011 was introduced in 2011 in response to the financial crisis and the rapid increase of General Government gross debt, which jumped from 28.5 % of GDP in 2008 to 52.2 % of GDP in 2012. The Constitutional Act has the objectives of: a) achieving long-term sustainability of public finances; b) enhancing the transparency and efficiency of public spending; and c) supporting the long-term competitiveness of the Slovak Republic, while taking into account economic and social justice and solidarity between the current and future generations.

The Constitutional Act also introduced important innovations to the fiscal framework, including enhanced rules for fiscal responsibility and transparency. In particular, it establishes the Council for Budget Responsibility (CBR) (Box 27) as an independent fiscal institution of the Slovak Republic to monitor and evaluate compliance with the fiscal rules and enhance fiscal transparency.

The new fiscal responsibility rules introduced an upper limit for the General Government debt, the so-called “Debt brake” (Box 28). Together with the MTO of a balanced budget, the debt limit now constitutes the main fiscal target of the Slovak Republic. The Constitutional Act also included provisions for municipalities and established a long-term sustainability indicator, calculated by the CBR, which aims to inform public debate². The debt limit, however, was not created as the operational target, as expenditure ceilings were expected to perform this role (OECD, 2016^[3]). However, mandatory medium-term expenditure ceilings for spending ministries have not been introduced yet, contrasting the Ministry of Finance’s remit to achieve the aggregate fiscal targets as defined in the Stability programme.

With regard to fiscal transparency, the Constitutional Act provides a statutory basis for two independent committees responsible for macroeconomic and tax forecasts for the budget (Box 29, next section). It also requires information on the consolidated budget, tax revenue, contingent liabilities, net worth, one-off effects, financial results of state companies, and a debt management strategy on the budget (OECD, 2016^[3]).

Box 27. The Council for Budget Responsibility

The Council for Budget Responsibility (CBR) was formed in 2012 as an independent fiscal institution of the Slovak Republic. Its main objective is to monitor and evaluate fiscal performance, increase transparency of public finances, raise public awareness, and facilitate better decision-making in the parliament. The main tasks of the CBR are defined in the Constitutional Act on Fiscal Responsibility.

The nature of the council’s work is descriptive, rather than normative. It has no mandate to formulate policy recommendations. Its functions are both prospective, when analysing long-term fiscal sustainability or the draft budget, and retrospective, when assessing the government’s compliance with fiscal and transparency rules. Additionally, the CBR can choose to cost individual pieces of legislation. However, the legal mandate of the council prioritises the analysis of long-term fiscal sustainability and assessment compliance with the fiscal and transparency rules, leaving the third function, costing of legislation, optional. Moreover, it has no mandate to cost the election platforms of political parties. The

council has no role in macroeconomic forecasting for the government, which is the task of a separate body (see Box 29).

Source: Von Trapp, L., I. Lienert and J. Wehner (2016), *Case Study of Slovakia* in "Principles for independent fiscal institutions and case studies", OECD Journal on Budgeting, vol. 15/2, <https://doi.org/10.1787/budget-15-5jm2795tv625>, Official website of the CBR, <http://www.rozpocetovarada.sk/eng/rozpocet/125/what-do-we-do>

Box 28. The Slovak fiscal pathway

The Constitutional Act introduced a debt brake aiming to stop the rapid increase in general government (GG) gross debt. The debt brake sets an upper limit of 60% of GDP, as well as debt-reducing procedures. Starting in the fiscal year of 2018 and until the end of the fiscal year of 2027, the upper limit of the GG debt is to be gradually decreased by one percentage point per year until it reaches 50% in 2027. Hence, from 2027 onwards a debt-reducing procedure will apply if debt reaches or exceeds 40% of GDP. To comply with these targets, there are different procedures for different levels of debt, for example:

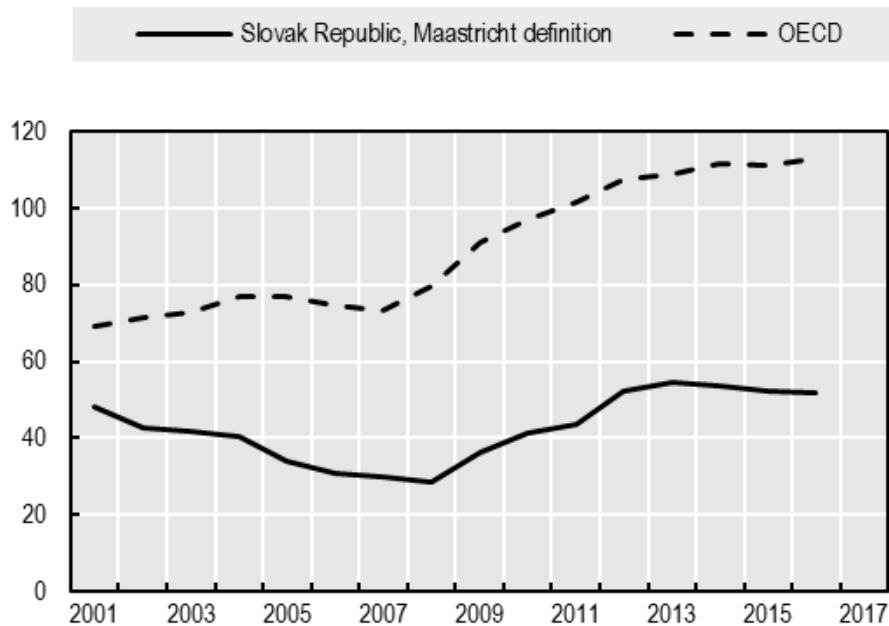
1. A written justification from Ministry of Finance to the National Council if debt levels reaches or exceeds 40% of GDP.
2. The Ministry of Finance can block the state-budget expenditures up to 3% of the total state-budget expenditures as approved in the state budget Act for the respective fiscal year, and block the Prime Minister's and Government reserves of and the reserve of the if debt levels reaches or exceeds 45% of GDP.
3. The Government may not submit to the National Council a general government budget proposal with budgeted deficit if debt levels reaches or exceeds 47% of GDP.
4. The Government needs a vote of confidence by the National Council, if debt reaches or exceeds 50 % of GDP.

The debt limits are subject to four numerically defined escape clauses relating to: 1) major recessions; 2) banking system bailouts; 3) natural disasters; 4) and international guarantee schemes. The debt ceiling is however not a sufficiently effective operational fiscal rule and entails the risk of pro-cyclical policy when debt approaches the ceiling (OECD, 2017^[4]).

Source: Constitutional Act on Fiscal Responsibility, www.rozpocetovarada.sk/images//constitutional_act_493_2011.pdf; (OECD, 2016^[3])

The reforms introduced in the last decade have placed fiscal discipline as the main objective in the budget framework, providing the government with guidelines and tools to strengthen its fiscal situation. Since the introduction of the Constitutional Act, debt levels have stabilised and started to decrease slowly. As highlighted by the latest OECD Economic Survey (OECD, 2019^[5]), the fiscal situation is sound, with a deficit of below 2% of GDP in 2016 and a public debt around 52% of GDP, below the OECD average (Figure 15).

Figure 15. Gross Public Debt
% of GDP



Source: OECD (2019), OECD Economic Surveys: Slovak Republic 2019

2.3. Slovakia's annual and multi-annual budget processes

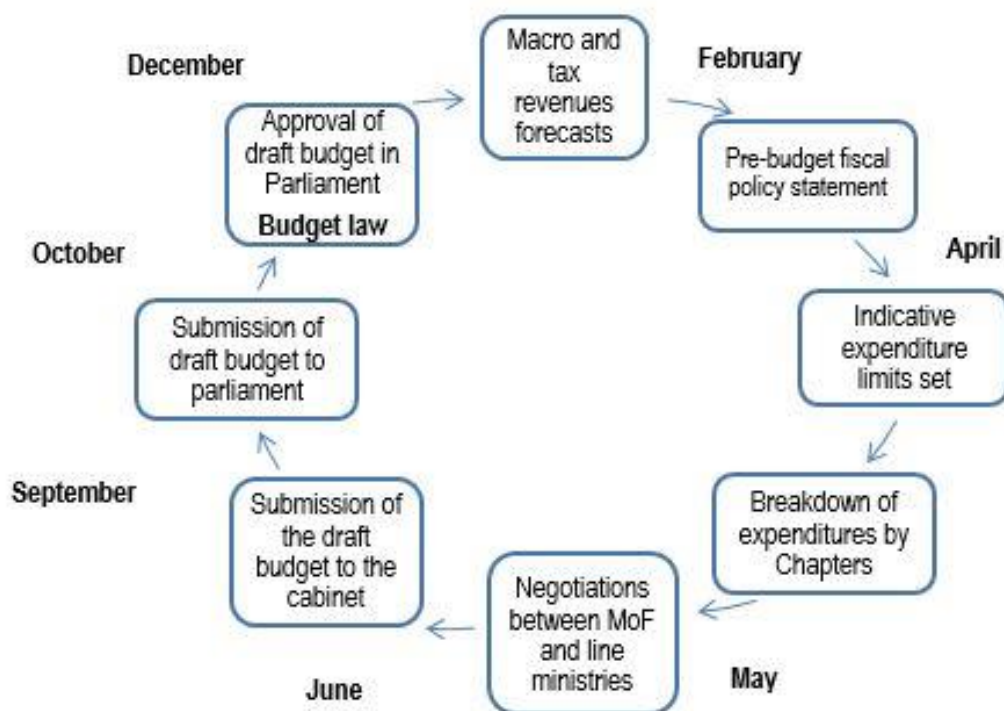
As discussed in the previous section, the budget process in Slovakia is derived from both domestic and European fiscal objectives. The 2004 budget reforms legislated a top-down approach to the Slovak budget process. Initially the top-down approach was first introduced in 2000 with a document called the *Starting Points for Budget Preparation*, which included macro-forecast, revenue forecast and main fiscal aggregates. This practice was legislated in 2004 and later on merged with Stability Programme³.

Even though this approach follows the OECD best practices per se, in practice, the system could be further strengthened towards having a top-down delineation of expenditure ceilings and strategic budget functions, based on thorough baseline analysis over the course of the annual and multiannual cycle.

The budget cycle

The budget legislation in Slovakia frames the annual budget process through a non-binding multi-annual perspective. The GG budget is set in a multiannual framework that covers a three-year period. It refers to the state budget, which historically represents approximately 50% of the GG budget; and other entities of the general government, including social security, health insurance and municipalities. However, only the first year of the state budget is approved by parliament as binding budget law (Figure 16). The multi-annual GG budget remains indicative, approved by the executive of the Government (cabinet) only. Integrating other entities of the general government with state budget would support a more binding framework by strengthen Parliamentary oversight of all expenditure and revenues

Figure 16. Annual budget cycle in Slovakia



Source: Authors

Budget preparation

The budget year starts in January with an update of the Ministry of Finance's macroeconomic and tax revenue forecasts. The Ministry of Finance's macro-economic and fiscal forecast unit – the Financial Policy Institute (FPI) – forecasts medium-term tax revenues and social security contributions. Forecasts are updated three times a year and are approved by the Macroeconomic Forecast Committee and the Tax Revenue Forecast Committee established in 2004 and enshrined in 2011 under the Constitutional Act on Fiscal Responsibility to increase the transparency and objectivity of the forecasts and to help avoid over or underestimations by the agencies preparing the budgets (Box 29). However, social expenditure and non-tax revenues are currently not assessed which has contributed to over-estimations in the budget in the past. Based on these forecasts, the Ministry of Finance has until the end of April to formulate a stability programme, which serves as the medium-term fiscal framework from which the budget formulation process commences for the General Government (Section 3).

Box 29. Macroeconomic and tax forecasting committees

The Constitutional Act on Fiscal Responsibility established a **Macroeconomic Forecasting Committee** and a **Tax Revenue Forecasts Committee**, in order to increase transparency and objectivity of forecasts.

The Macroeconomic Forecasting Committee reviews the preliminary macroeconomic forecasts of the Ministry of Finance, which includes an overall evaluation of the character of the forecasts, i.e. conservative, realistic, or optimistic. If necessary, the Ministry of Finance adjusts the forecasts in the view of the evaluation.

The Tax Revenue Forecasts Committee builds its forecasts of tax revenues and social insurance contributions on the outcomes of the Macroeconomic Forecasting Committee. The Committee comprises several independent members (e.g. representatives of the central bank, academy, commercial banks and financial market), strengthens public control over the budget process and aims to increase transparency and objectivity.

Source: Ministry of Finance of the Slovak Republic

Budget formulation

Taking into account the fiscal framework, the previous year budget execution, and forecasted revenues, the Ministry of Finance defines the expenditure ceilings for budget chapters of the state budget for the first year and – on an indicative basis - the following two years. These numbers are further updated according to information from budget impact assessments (part of regulatory impact assessment), government resolutions and other relevant sources. The state budget consists of 35 budget chapters that correspond mainly to line ministries (13) and agencies, including the Office of the Government; the Office of the Supreme Court; the Supreme Audit Office; General Treasury Administration; and the Statistical Office. The indicative ceilings refer to the total expenditures and revenues in a chapter, including the EU funds, co-financing needs, capital investments and wages.

In contrast to some OECD countries, such as Sweden (Box 30), in Slovakia expenditure ceilings are not prepared based on baseline estimations. This means that line ministries and agencies are not requested to provide politically agreed baselines at line item level in the tri-annual budget. The role of these baselines would be to inform political decision making with respect to the medium-term framework and annual ceilings. In other words, baseline estimates could be the basis for the evaluation over the medium term of whether there exists room for new spending or a need for consolidation. Effective baseline estimates need to be updated to reflect changing external (price or demand changes) and internal circumstances, such as the introduction of new policies or laws.

Some ministries have introduced measures to improve the estimation of their expenditure. The recent introduction of a new budget structure (Box 41) in the Ministry of Health for example aims to help project more detailed baseline expenditures, responding to the need for objective determination of medical care as identified in the sector's spending review.

Box 30. The use of baselines in Sweden

Sweden's tradition of collective policy setting includes preparing and regularly updating the expenditure baseline, and the ongoing development of policy. It retains a strong co-ordination and directive function to ensure that the annual process runs smoothly and that fiscal discipline is upheld.

Early spring forecasts set the scene for the annual fiscal policy preparation process, using the latest data from the previous year. The economic projections in the first quarter of the year are based upon existing expenditure policies and rules. The forecast presented in the Spring Fiscal Policy Bill adds to the baseline of any new discretionary measures in the spring supplementary budget. These forecasts are used for the government's assessment of setting the indicative aggregate expenditure ceilings for the third (and the fourth) year that are presented in the Spring Fiscal Policy Bill.

The Ministry of Finance assesses whether the forecasts and baseline projections are compatible with and comply with the fiscal rules in each year. Taken together, both the top-down macroeconomic figures and the bottom-up baseline projections, along with the fiscal constraint of the Swedish 1% surplus rule, inform the considerations regarding the appropriate level of the expenditure ceiling for the new year 3 of the medium-term framework. Any remaining fiscal space is referred to as "room for reform". If no fiscal room is available, consolidation measures may be needed in the context of subsequent negotiations with line ministries (Section 3).

Source: OECD (2016) Budget Review of Sweden

Line ministries and agencies have a 3 – 4 week period to prepare detailed budget proposals within the expenditure ceilings. Despite the fact that it is not legally binding, the multiannual framework of the GG budget is considered as a starting point for the budget proposals for the following year. Line ministries and agencies allocate all expenditures within the given ceilings into programmes according to budget classifications in the budget information system (BIS). Restrictions in the BIS force the line ministries to prepare the information within the constraints set by the ceilings in each chapter.

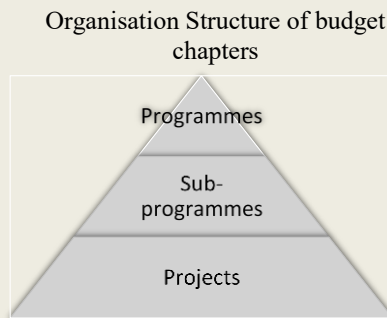
Within the chapters, line ministries are granted a high level of autonomy in formulating programme structure (Box 31). According to line ministries, this autonomy has contributed to a more effective organisation of the budget. Nevertheless, according to Ministry of Finance in recent years the programme structure has become more complex as line ministries add new programmes to the structure, rather than integrating new projects into existing programmes, thereby increasing the overall number of programmes and sub-programmes.

Box 31. . Budget Structure in the Slovak Republic

Programme budgeting was introduced in 2002¹ as a part of a public finance reform, when only a few chapters in the budget were structured by programmes. Since 2004, according to the Act on Budget Rules, all chapters of the state budget are required to be budgeted in programmes. In 2009, the programme structure was introduced to municipalities, however, since 2013 the programme structure for small municipalities (up to 2 000 inhabitants) has been voluntary.

Each budget chapter is divided into programmes, sub-programmes and individual projects or items (*Figure*). Line ministries are granted a high level of autonomy in formulating programme structure within the budget chapters. The budget section of a line ministry or agency co-ordinates the development of the programme structure in co-operation with the sections responsible for individual programmes.

The programme structure is provided as a separate annex to the budget law, containing the names of programmes and sub-programmes with allocated expenditures, but no information on goals and measurable indicators.



Source: Authors.

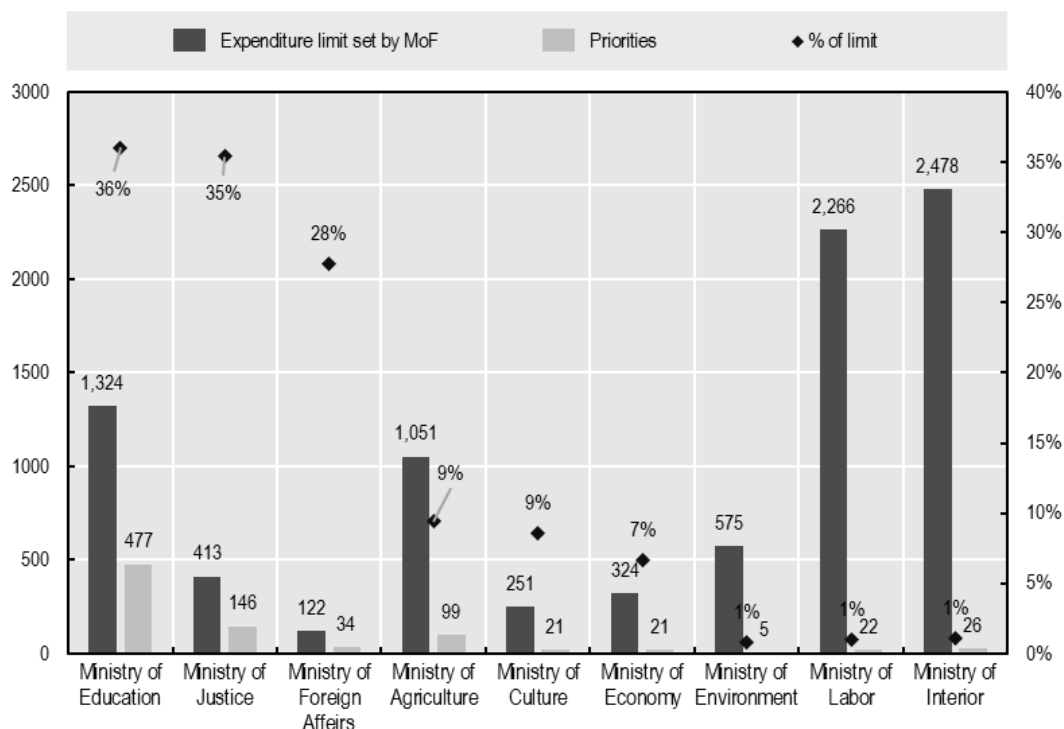
Note: ¹ Pilots were running also on pre-accession EU programs since 2002

Source: Ministry of Finance of the Slovak Republic

While in theory, this appears to be a top-down approach, in practice, the process includes a negotiation stage for additional priorities. This entails that, additional to the budget proposals within the given ceilings, line ministries and agencies can request funds, sourced from a “reserved priorities envelope” which is subject to negotiations with the Ministry of Finance. The additional funds aim to accommodate claims for the continuation of measures that were approved in the period of the current budget and to focus the budget negotiations on priority projects.

The criteria to allocate these priority funds is not public, and there is limited information on the process to prioritise funding. As the total value of the “reserved priorities envelope” is not disclosed, there is the risk that many line ministries or agencies can overstate the need for additional funding. For example, line ministries may omit indispensable expenditure allocations in their draft budgets, to request them during negotiations, as they can count on their approval due to the essential nature of the measures. During the formulation of the budget for 2019-21, the Ministry of Education and the Ministry of Justice requested expenditure increases of around 35% (Figure 17). These significant changes decrease transparency, and reduce planning capacity for line ministries as well as the Ministry of Finance. In total, during budget formulation for 2017, the difference between first draft and approved state budget expenditures was over 5% (EUR 770 million increase).

Figure 17. Formulation of budget for 2019 for selected budget chapters, million Euro



Source: Ministry of Finance of the Slovak Republic

An effective top-down approach would require a clear top-down delineation of binding and realistic expenditure ceilings under which line ministries develop their budget proposals. To ensure that identified fiscal space can help improve fiscal responsibility and accommodate truly new priorities, Slovakia could consider introducing a more collective and transparent approach. Regularly updated baselines will already help to accommodate claims for the continuation of approved measures within binding Chapter ceilings. Additional identified fiscal space could therefore be linked to new priority projects. This could above all relate to cross-cutting priorities, such as the newly identified national priorities towards the implementation of the SDGs. As part of a decision rule, Slovakia could consider using any fiscal space to accommodate innovative cross-ministry proposals in specific areas of national development priorities. New Zealand's experience of social investment is outlined in Box 32.

Box 32. Social investment and budgeting in New Zealand

In recent years, New Zealand has pioneered a “social investment” approach, as a way of improving the lives of New Zealanders by applying rigorous and evidence-based investment practices to social services. The “returns” from such investment are better social outcomes, many of which are mutually reinforcing over time. For example, investing in the education of vulnerable groups is assessed by reference to impacts on time spent in prison and reduced re-offending; which would lead to better quality of employment; which in turn would facilitate children spending more time in school; and better access to family supports. In principle, this approach should also generate longer-term savings for the national treasury and promote fiscal resilience: “what is good for the well-being of communities and families is also good for the country's books”.

To accommodate this approach, New Zealand's traditional budget process has been supplemented with a "social investment" track. The Treasury is open to receiving resource-allocation proposals under this track, provided that the proposals are put forward collectively by more than one ministry. This joined-up approach forces ministers and officials to work together, and to open up to unfamiliar perspectives. For example, a multi-agency proposal regarding mental health combined inputs regarding employment, justice issues as well as clinical perspectives, and allowed for a proposal to be developed that could not have come from one ministry acting alone.

Source: Presentation of Mr Brendan Boyle, Chief Executive of the New Zealand Ministry of Social Development at the OECD's "New Approaches to Economic Challenges", Monday, 4 September, 2017, www.oecd.org/naec/naec-seminars-2017.htm

Budget approval

Based on the budget negotiations, the Ministry of Finance drafts the GG budget, including the state budget, which is submitted to the government (cabinet) usually in late September or early October. The government is obliged to submit the approved GG budget to parliament before 15 October. Any proposal of changes leading to a higher deficit compared to Stability programme target cannot be approved.

In parliament, the Finance and Budget Committee publishes a report on the draft budget with recommendations, which are perceived as rather formal. The individual thematic chapters are discussed by the relevant committees. However, they do not provide systematic inputs or recommendations to the draft budget. Parliament approves the annual budget law by the end of December.

The Supreme Audit Office (SAO) and the Council for Budget Responsibility (CBR) furthermore produce evaluations of the draft GG budget checking compliance with legislation, strategic goals of the government and fiscal rules. The reports are submitted to parliament for information, but not formally discussed. The SAO reports present an expert opinion (Box 33). None of the opinions on the draft budget needs to be formally addressed by government. Concrete measures to respond to the SAO or CBR report could improve the impact of the analysis.

Parliamentary oversight is mostly limited to the approval process of the current year. As in many OECD countries, parliament approves the state budget only for the first year, while the government approves the medium-term GG budget (Box 29). For the current State budget, there are seven binding indicators formulated on cash basis that are subject to legislative approval: 1) total revenue; 2) total expenditure; 3) co-financing with EU funds 4) revenue and expenditure of EU funds; 5) capital expenditure; 6) wages; and 7) programme structures⁴. However, with the MTO set in accrual terms, annual chapter ceilings and binding indicators based on cash limit provide limited accountability for the achievement of the medium-term fiscal target.

Box 33. The role of the Supreme Audit Office in the budget process

The Supreme Audit Office (SAO) of the Slovak Republic was established in 1993 as an independent body to audit the financial management of the government, central state administrative bodies, local administration units and European Union, including state special-purpose funds. Its independence, scope and responsibilities are based on Article 60-63 of the Constitution and the Act no.39/1993 on the Supreme Audit Office of the Slovak Republic. The SAO performs the following functions;

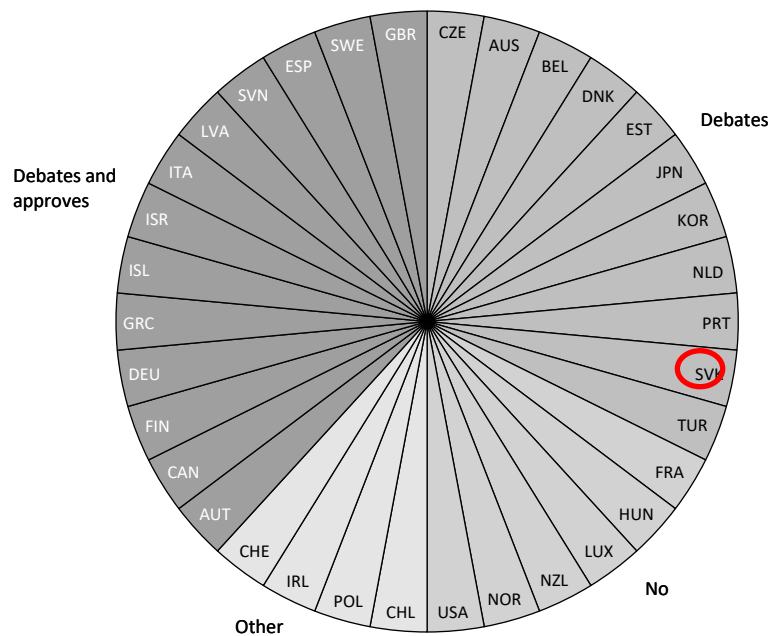
- Financial control: assessing the financial statements, budgeting and accounting of the audited entity in accordance with the accounting and financial reporting legislative framework.
- Compliance audit: aimed at the compliance with laws and regulations relating to public spending

- Performance audit: assessing whether the audited entity manages public funds economically, efficiently, and effectively (achieving goals and objectives).

Regarding the budget process, the SAO assesses the compliance of the draft GG budget with legislation and the strategic goals of the government. Its report (Opinion on General Government Budget) is presented to parliament for information. The SAO does not assess government policies, it can only highlight problematic areas and risks, based on recommendations from international organisations like the OECD or IMF, or based on conducted controls. For example, in its report on the GG budget 2018-2020 SAO highlighted risks in financial performance of public hospitals relative to private hospitals.

Source: Official website of SAO⁵, Opinion on General government budget 2018-2020⁶

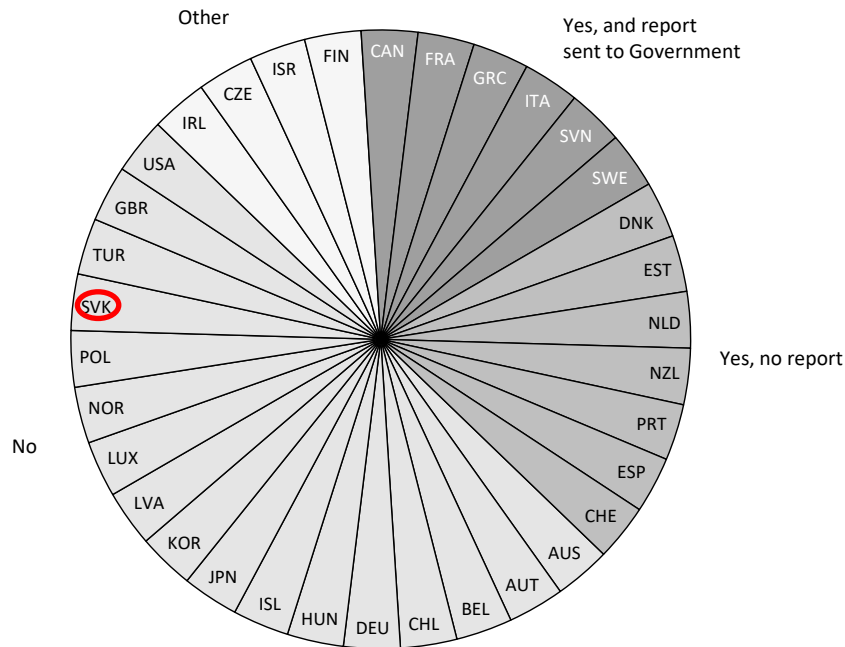
Figure 18. Does the legislature debate or approve the medium-term budget framework?



Source: Data drawn from question 3, 2018 OECD Survey on Parliamentary Budget Practices.

A budget process that informs and consults the legislature on fiscal policy and medium-term budget policy at an early stage, and that takes the views of the legislature into account during the budget formulation phase, promotes transparency and encourages fiscally responsible legislative decision-making (OECD, 2019^[6]). The number of countries holding a pre-budget debate in parliament increased from three countries in 2012 to over a third of OECD legislatures in 2017-18 (OECD, 2019^[6]). Of these, around half send the results of the pre-budget debate as a report to the government (Figure 19).

Figure 19. Does the legislature hold a pre-budget debate?



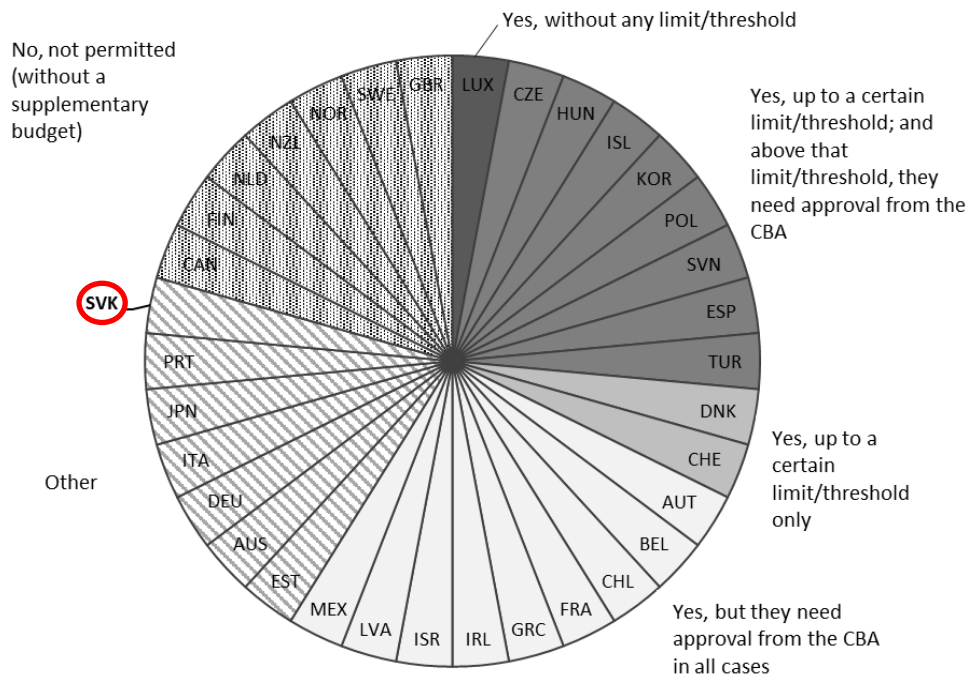
Source: 2018 OECD Survey on Parliamentary Budget Practices.

While the budget approval phase is where most legislatures come to the fore in the budget process, there is a trend away from treating the budget as a set-piece event. A more detailed analysis of Slovakia's parliamentary budget oversight, however, goes beyond the remit of this targeted assessment.

Budget execution

Line ministries have a rather high degree of budget flexibility during budget execution. Similar to most OECD countries, Slovakia allows budget adjustments without a supplementary budget (Figure 20). This means that, once the budget has been approved, budget adjustment impacting the binding indicators, require approval by the Ministry of Finance, but not parliament. In the last 5 years (2013-17), over 2 400 budget adjustments per year were made on average. According to the Ministry of Finance, more than 50 % of these were small changes. Within the set of binding indicators, including programmes, line ministries and agencies are free to re-allocate expenditures during the course of budget execution.

Figure 20. Re-allocation of funds during budget execution in OECD countries



Source: OECD 2018 Survey of Budget Practices and Procedures

Flexibility is granted to line ministries to carry-overs from one year to the next of capital expenditure, reserves, EU funds and military spending. In general, the Slovak state budget allows total expenditures to increase through budget adjustments by up to 1% if it does not impact the budget balance. Line ministries and agencies are able to overspend in chapters during budget execution by using carry-overs of unused funds or appropriations from one year to the next and the use of re-allocations from the budgeted reserve funds. This degree of financial flexibility to managers aims to encourage budget responsibility within chapters, but limits the Ministry of Finance's oversight to ensure compliance with fiscal targets.

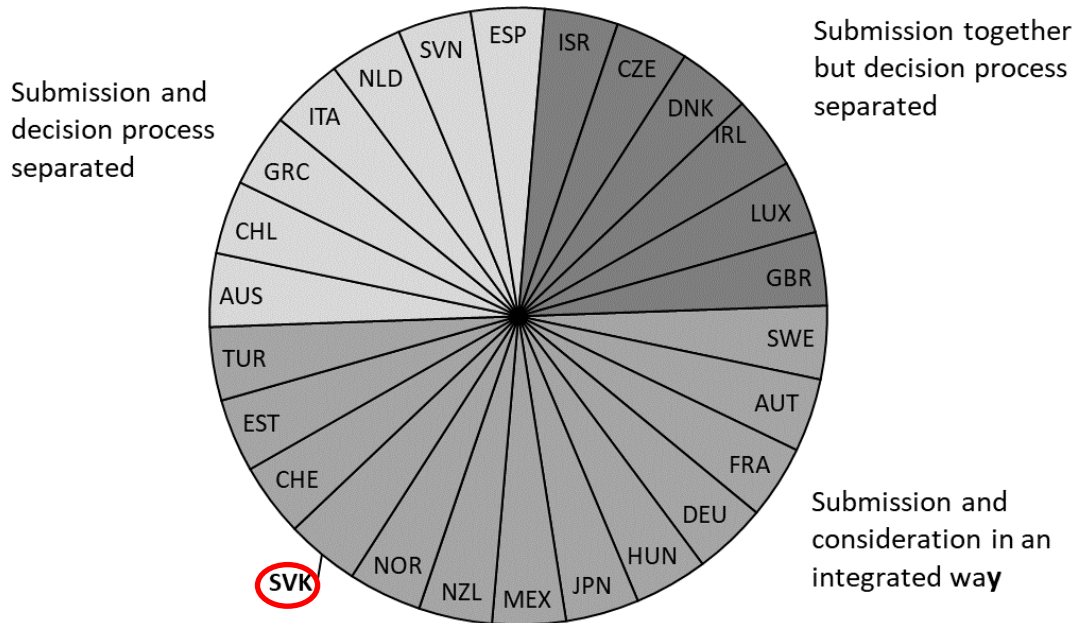
Capital expenditure is integrated in the budget process

This section considers the management of capital expenditure in the budget process and has specific regard for Slovakia's obligations for EU funding. Capital expenditure in the Slovak Republic is well integrated in the budget process. Line ministries submit proposals based on their individual priorities and they are negotiated with the Ministry of Finance together with current expenditure. As one of the binding indicators that determine legislative approval, limits on capital spending for every line ministry are decided within the budgeting process.

Integration between current and capital expenditure aims to improve budget planning, facilitate co-ordination and increase flexibility. Including Slovakia, around half of all OECD countries prefer an integrated system (Figure 21). The other 50% reported that they have separate processes to decide the capital expenditure budget (OECD, 2018^[23]). Separated budgets are often used to ensure that mandatory items such as entitlements do not crowd out discretionary items such as capital investment (Posner, Ryu and Tkachenko, 2009^[7]). Hence, countries using an integrated budget, should ensure that this practice is

also accompanied by guidelines or fiscal rules as well as the political will to limit government borrowing that finances current expenditure (Burger and Hawkesworth, 2013^[8]).

Figure 21. Distinction between operational and capital expenditures requests



Source: OECD 2018 Capital Budgeting and Infrastructure Governance Survey

As many capital expenditures are multi-year projects, they require careful planning and monitoring. Under the Slovak budget process, requests from line ministries for capital funding include for the entire cost of a multi-year project. Carry-overs are allowed within the period of 2 years. As carry-overs are mostly allowed for capital expenditures, in some cases, line ministries reallocate operational expenditures to capital in order to carry-over these expenditures. The Slovak government has a register of every investment included in the state budget and separate modules, Register of Investments, for budgeting capital expenditures in the budget information system (BIS). This information system provides basic financial and non-financial information about the investment (name, current status, type, schedule, costs, budgeted expenditures etc.) for monitoring and evaluation purposes. However, in practice the reporting of this information is often outdated (information about current state are often not updated after completion), and investment types and parameters are not classified correctly. In many cases, diverse investments are aggregated within a Budget Chapter.

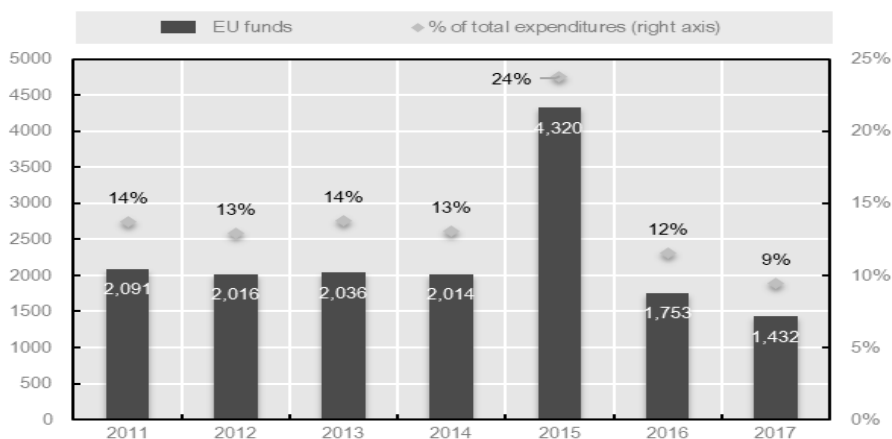
There are a number of infrastructure and network plans in the Slovak Republic, and there is room to improve the co-ordination across the plans. Currently, each line ministry prepares its own departmental strategy for capital investments and is responsible for the management of those investments. The Ministry of Transport has developed a comprehensive sectoral strategy. The prioritisation procedure within a ministry varies depending on the line ministry, but usually reflects political priorities, project preparedness and available funding. There is no formal framework that regulates infrastructure planning and prioritisation process across budget chapters. To address this shortcoming, the Deputy Prime Minister for Investments and Informatisation has launched a national infrastructure plan, which is to be implemented in the coming year (see Section 3).

In 2016, the government reformed the process of evaluating significant investments. As part of its value for money initiative, Slovakia has now defined a methodological framework for the process and preparation of large investment projects and their evaluation according to the principles of value for money. This implies that, for investment projects with a cost of more than EUR 40 million (and IT projects from EUR 10 million), following a feasibility study by the relevant Ministry, the Ministry of Finance is obliged to prepare and publish an evaluation. The evaluation provides recommendations of alternatives, cost-benefit-analysis and input values. Such systematic investment assessments are essential to help ensure that the projects are developed in a manner that is cost efficient, affordable, and trusted by users and citizens (OECD, 2017^[9]).

A parallel system for EU funding

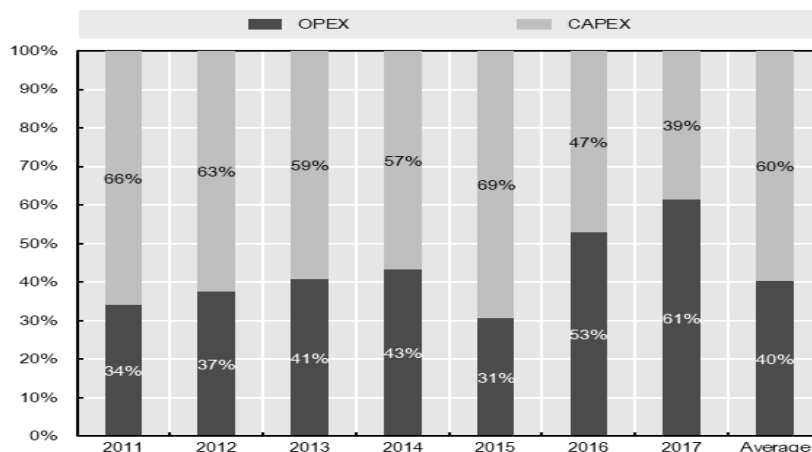
EU funds are an essential part of the Slovak budget. In the last 7 years (between 2011 and 2017), around 14% of total expenditures, and 57% of capital expenditure were from EU funds (Figure 22 and Figure 24). Yet, since 2016, operational expenditures have started to become more relevant (Figure 29).

Figure 22. Executed EU funds in Slovakia (in State budget), million EUR



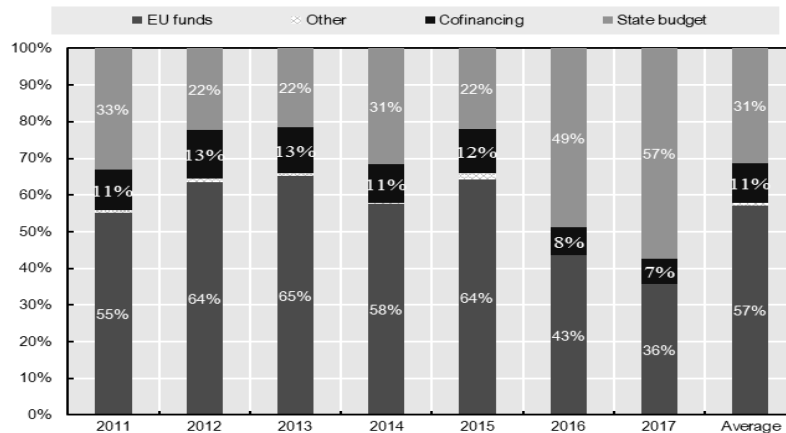
Source: Budget information system, Ministry of Finance SR

Figure 29. Structure of EU funds (in State budget)



Source: Budget information system, Ministry of Finance SR

Figure 24. Capital expenditures by source (in State budget)



Source: Budget information system, Ministry of Finance SR

However, the system of planning, allocating resource, disbursing and monitoring EU funds differs from and runs in parallel to the main budget process. The EU funds section at the Ministry of Finance is responsible for co-ordinating the preparation of the budget. It collects estimates from line ministries (executed resources, carry-overs, etc.) and proposes limits for the individual Chapters during budget formulation. During their operational programme period (which covers 7 years), EU funds can be carried over each year— both capital and operational, for up to two years after operational programme period.

A future transition towards reduced dependency on EU funds will need to take into account the gaps this transition will impose, not only in terms of financing, but also with regard to reporting and evaluation mechanisms.

2.4. Recommendations

Strengthen the Slovak budgeting framework for robust and strategic medium-term planning

- 5. Introduce baseline estimates of expenditures over the three-year medium term to support the information available to set credible expenditure ceilings.** The role of baseline estimates is to describe the future budget consequences of current laws and policies at any given point in time. Such information provides rolling estimates of what is required to achieve programme objectives, and can include analysis of the factors that may cause allocations to vary from one year to the next. Estimates should be calculated based on the most recent macroeconomic outlook of the economy and other relevant information, such as the most recent measured expenditures.
- 6. Regularly update baseline estimates within a single budget year.** Baseline estimates need to be regularly updated for the Government to be able to evaluate actual expenditures against its ceilings. Variations against budget may arise from changing external and internal circumstances. Updates about external circumstances should be done at the start of budget preparation and frequently during budget execution. Baseline estimates must also be amended when new policies or substantive laws are decided or enacted. The role of these updates is to inform political decision making with respect to the medium-term framework and the ceilings.
- 7. Include baselines in the automatised Budget Information System.** To ensure agreement between line ministries and the Ministry of Finance, the regularly updated baselines need to be shared between the line ministries and the Ministry of Finance. The BIS seems to be a well-prepared system to do so. The line ministries should be responsible for inputting and updating

baselines in the system, while the expenditure divisions of the Budget Directorate should be responsible for the assurance and oversight of the updates.

8. **Ensure time, space and a process for interdepartmental engagement to agree on the expenditure baselines.** Baseline identification is not a purely technical affair. The Budget Directorate should establish the rules to administer the process and any differences of opinion about the baselines should ultimately be decided between the relevant ministers at cabinet. Baselines should inform, not undermine top-down priority setting. Once reliable baselines are identified, broad policy priorities can be managed by expenditure ceilings.

Prepare for the transition from EU funding of capital investments

9. **Strengthen the governance framework for capital investment.** Slovakia's transition to become less dependent on EU funds may lead to challenges for planning capital investment, as the country has traditionally relied on the EU system for planning, allocating, monitoring and evaluating capital investments. Reduced dependency in EU funds will require the government to improve its framework for capital investment, meaning in particular the strengthening of strategic planning of capital investment (see chapter 4). The OECD framework, *Getting Infrastructure Right*, highlights 10 success factors of good infrastructure governance. A full assessment on the implementation of this framework in the Slovak Republic could provide a detailed insights and recommendations on how to move forward with the implementation of each one of the dimensions.

3. Strengthening the medium-term dimension in the budget process

3.1 Summary

Effective medium-term budgeting is a supportive measure between budgets, plans and policies and an integral part of providing predictability to policy making. For medium-term budgeting to operate effectively, it is necessary for the budgeting system to operate in a 'top down' manner. While there seems to be a clear vision of Slovakia's national and European fiscal objectives acting as top-down budget constraints, linkages to broader development objectives are less clear.

The Slovak medium-term expenditure framework (MTEF) with 3-year rolling ceiling lacks a binding character beyond the traditional annual cycle. The non-binding nature of the Slovak MTEF weakens its role as a tool to manage fiscal policy and improve fiscal planning and discipline. Moreover, limitations on the collective decision-making process undermines the extent to which the annual and medium-term budget reflects the government's priorities. Reinforcing the medium-term dimension in the budgeting process would support the basis for setting the annual budget as well as creating opportunities for strategic medium-term planning.

In order to ensure a whole-of-government approach, government priorities should be integrated into a long-term national development strategy and investment plans. Recent reforms have strengthened the project assessment and evaluation process in Slovakia. In particular, the government adopted a methodological framework for the preparation and evaluation of large investment projects according to the principles of value for money. Despite recent improvements, co-ordinated planning for capital investments would benefit from more attention.

Furthermore, there have been efforts to develop an integrated approach between the national long-term strategic planning and the SDGs. A strategic vision has been developed including a National Infrastructure Plan (NIP). Nevertheless, further steps could be taken to integrate the NIP into the fiscal management framework to improve the allocation of resources to achieve the vision for infrastructure development.

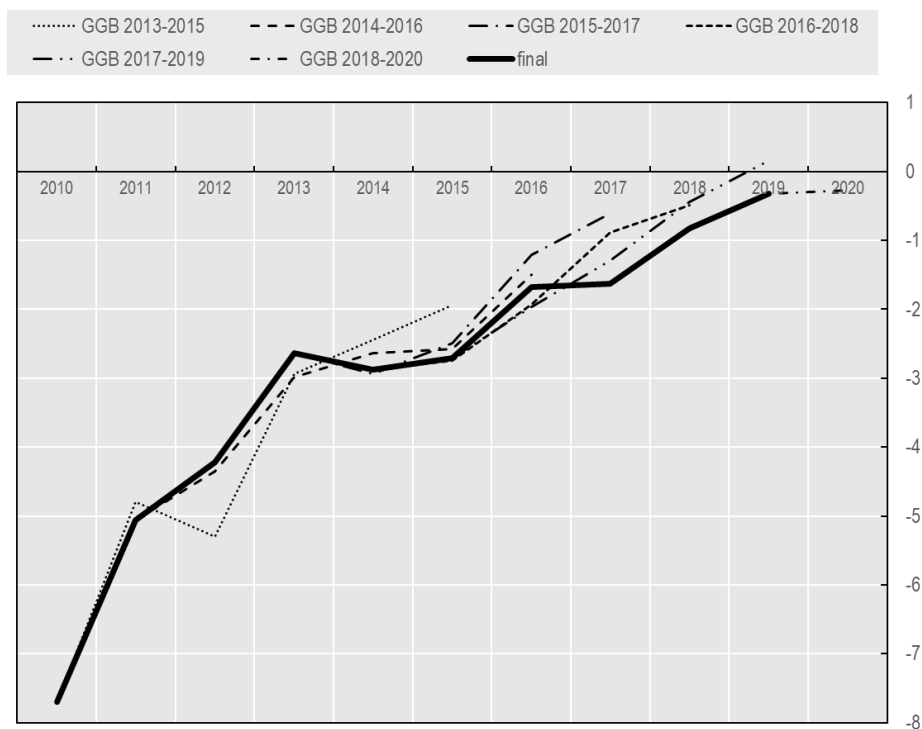
3.2. The stability programme as the basis of the multi-year perspective

The stability programme is the guiding document of the budget medium-term perspective in Slovakia. The Ministry of Finance has the lead role of preparing the budget for the Minister of Finance who then submits it to the cabinet for approval and to the European Commission for assessment. The document is then presented to parliament and serves as basis to prepare the budget bill.

The stability programme is an important instrument of the EU's surveillance of national budget policy. The programme presents the development path of the public finances for the previous year, the current year and the three following years, based on the most recent macro-economic forecasts. The stability programme must contain information on the medium-term fiscal objective for the general government structural balance. The stability programme presents indicative objectives for general government revenues, expenditures and balance expressed in nominal terms and as a percentage of GDP for the current year and the three subsequent years. It includes two fiscal scenarios: a "no-policy change" (NPC) scenario and a central scenario (also referred as the "fiscal framework of the public administration budget"). The NPC scenario is a projection of the end-year outcome of the previous year's budget at the aggregate level, without assuming any additional measures. In contrast, the central scenario is presented as the most likely outcome of fiscal policy.

As explained in the next section, expenditure targets for the three following years and their composition are indicative and can be and are modified when the draft budget is prepared in autumn (or in subsequent updates of the stability programme in the coming years) (Figure 31). There is no legal requirement to explain or justify changes to the target revisions, which underscores the low level of strictness of terms of respecting the plans set out in the medium-term planning documents (Sherwood, 2015^[10]).

Figure 31. Government balance projections in successive General Government Budgets (GGB) in % GDP



Source: Ministry of Finance of the Slovak Republic, General Government Budgets

3.3. An indicative medium-term expenditure framework

Slovakia started to implement a medium-term expenditure framework (MTEF) relatively early compared to other countries in the region. Since the early 2000s, the government has prepared an overview of the macroeconomic and fiscal forecasts (revenues, expenditure, and balance) for a three-year period (Webber, 2009^[11]). Since 2005, the MTEF has been an integral part of the budget. The budget IT system includes all the expenditures for three years. Furthermore, each new policy document or law proposal includes a budget assessment for three years.

Even though the three-year budget is presented to parliament with the same level of detail, only the annual budget for the first year is voted and enacted into law. The medium-term expenditure ceilings for the two subsequent years are indicative only. They are revised annually on a rolling basis. Adjustments are made according to changes in macroeconomic predictions and political decisions. There can be substantial changes between the ceilings initially projected and the ceilings set in the annual budget law (Table 12).

Table 12. Approved budget expenditures of general government

Euro, millions	2016	2017	2018	2019	2020	2021
GGB 2016-2018	32 235	32 735	33 957			
GGB 2017-2019	33 659*	34 534	35 638	36 336		
GGB 2018-2020	33 706**	34 686*	35 175	37 383	38 970	
GGB 2019-2021	33 669**	34 107**	36 646*	37 253	39 745	40 858

Notes: Approved budget in a given year; *updated numbers during execution, **final numbers

Source: General government budgets (GGB) of the Ministry of Finance of the Slovak Republic

Since its introduction, the Slovak MTEF has been used as a fiscal policy management tool, helping improve fiscal planning and fiscal discipline. However, the impact has been limited due to the non-binding character beyond the annual cycle. In particular, the MTEF could have a stronger role in supporting multi-year programme planning.

The purpose of the Slovak MTEF is to improve the quality and certainty of multi-annual fiscal planning by combining prescriptive yearly ceilings with descriptive forward estimates. However, it requires political commitment to ensure that fiscal targets are maintained and that discussions on policy priorities and trade-offs occur. Legally binding expenditure ceilings envelopes can support the political commitment. Across OECD countries there are examples of good practice, this report illustrates the case of Sweden (Box 34). As a result of cautious planning and the existence of a budget margin, the Swedish expenditure ceiling has never been breached since its introduction, even during the recent economic crisis.

Box 34. Main characteristics of Sweden's MTEF

Sweden's multi-year budget framework operates on three cascading levels. The first level constitutes the articulation of the government's fiscal policy objectives in macroeconomic terms, i.e. the level of surplus or deficit as a percentage of GDP. At the second level, these objectives are translated into a maximum level of total expenditure based on certain economic assumptions. At the third level, the limit for total expenditure is further operationalised by giving indicative funding levels for each of 27 expenditure areas.

The multi-year budget framework is legally binding. Parliament approves the maximum level of total expenditure for the government (Level 2) and the indicative level of funding for each of the 27 expenditure areas (Level 3). The amount of spending authorised in the annual budget is below the spending ceiling amount for that year, thus leaving a "budget margin" to deal with uncertainty. The

purpose of the budget margin is to provide a buffer against any forecasting errors so that the maximum level of total expenditure approved by parliament will not have to be amended. To achieve this, the government's guidelines specify that the margin should amount to at least 1.5% of ceiling-restricted expenditure for the budget year (year y), 2% for the following year (year $y+1$) and 3% for each of the following two years (year $y+2$ and $y+3$). In practical terms, the budget margin is left unaccounted for (and unbudgeted for) within the annual budget allocations and multi-annual expenditure ceilings. The fiscal margins are not regarded as "contingency reserves" but rather as operational stabilisation mechanisms.

The ceiling is not revised once set and an additional year is added to the ceiling each autumn alongside the budget. While there is nothing in the law preventing the Swedish national legislature (*Riksdag*) from re-opening the fixed expenditure ceiling each year, it requires that once an expenditure ceiling has been approved by the *Riksdag*, the government must take all necessary measures to avoid exceeding the ceiling, including proposing legislative measures to the *Riksdag* if necessary.

Sweden's fixed expenditure ceilings and indicative frames for expenditure areas provide a solid framework for realistic discussion about policy priorities and trade-offs. The top-down system requires that new spending priorities must usually be matched with offsetting savings elsewhere within that expenditure area, unless there is some scope for unfinanced reforms and the reform is of high political importance. The officials of the Ministry of Finance can exercise the prerogative to de-prioritise proposals that intrude upon the fiscal constraints or are considered inefficient, whereas significant proposed additions, with policy sensitivity, can be escalated for decision at political level.

In balance with this top-down character of budgeting, policy making in Sweden has a remarkably collaborative character. Unlike most other OECD countries, the process of specifying the detailed budget allocations is not primarily a bilateral process between a line ministry and the Ministry of Finance, but rather reflects a series of multi-lateral engagements and policy discussions, which culminate (as far as resource-allocation is concerned) in the specific "budget requests" submitted by the line ministries in May. Discussions on the budget proposals are carried forward at political and official levels through to August, when final determinations are made at a cabinet meeting in the latter part of that month.

Source: OECD (2016), Budgeting in Sweden, OECD Journal on Budgeting, Volume 2016, Issue 2

A possible drawback of setting fixed expenditure ceilings for outgoing years is the lack of flexibility to accommodate changes to the economic situation or new political priorities. In Slovakia, the state budget accommodates unexpected changes, including due co-financing needs of EU funds, debt service, and increasing social transfers under the General Treasury Administration budget chapter. In the past, the government budget included deliberately over-budgeted reserves or transfers during budget formulation to enable flexible reallocations at a later stage. Due to this practice, additionally executed expenditures in 2015 was 8 times higher than the 1% adjustment allowed (Ódor, 2016^[12]) (see section 2.3.1). Nevertheless, the 1% expenditure rule was considered to be not broken, as the overspending by line ministries was enabled by in year re-allocations (*virement*) from the General Treasury Chapter managed by the Ministry of Finance.

A budget margin, as described in Box 34. can provide the needed flexibility mechanism to respond to emerging pressures from year to year without re-opening the overall expenditure ceiling, increasing their credibility. It is important not to integrate the budget margin within the budget ceiling, i.e. it should not be an appropriated amount. Furthermore, unexpected changes may be accommodated by flexible ceilings (Box 35). Nevertheless, while flexible ceilings act as stabilisers to some extent, they are limited in scope and cannot accommodate new pressures that may arise from new political priorities or demand-driven factors.

Box 35. Flexible Ceilings in the Austrian Medium-Term Expenditure Framework

The Austrian Medium-Term Expenditure Framework provides legally binding expenditure ceilings for the upcoming budget year plus the three subsequent fiscal years on a rolling basis. The binding expenditure ceilings specified in the MTEF apply to high-level groupings of budget chapters referred to as “rubrics” that correspond to the number of line ministries and agencies.

Within the MTEF, expenditure ceilings are also displayed at the level of budget chapters, but these ceilings have legal force only for the upcoming budget year. The BFRG ceilings are divided into fixed and variable ceilings depending on their linkage to the business cycle. The variable ceilings include a) social benefits; b) payments related to the European Regional Fund and the European Stability Mechanisms, c) other payments that cannot be sufficiently predicted.

Nevertheless, the OECD (2017) Budget Review of Austria highlighted that considerations should be given to amend current rules in order to introduce an explicit and realistic “fiscal margin” into the MTEF rubric ceilings that would accommodate pressures from new political priorities or demand-driven factors. An amended approach would involve a far more substantial and flexible “fiscal margin” which would (a) act as a buffer to absorb unexpected cost pressures, and (b) allow for new policy priorities to be accommodated, where necessary, while still respecting public finance objectives and fiscal rules.

Source: OECD (2017), Budgeting in Austria

In early 2018, the Minister of Finance announced an open discussion on introducing binding medium-term expenditure ceilings. The Institute of Financial Policy from the Ministry of Finance is leading an expert group that includes the Council for Budget Responsibility and other experts. The first proposal of the design of expenditure ceiling was published by the end of 2018 (Jakub et al., 2018^[13]). The proposal highlighted benefits of dividing aggregate expenditure ceiling into individual ministries (clear responsibility of ministers, predictability of financial resources throughout electoral horizon). Hard limits on ministerial chapters could also strengthen incentives to identify savings, thereby reinforcing the implementation of the Value for Money project in the budget process. Recommendations on identified savings from spending reviews could furthermore be debated and incorporated during budget formulation phase.

3.4. Alignment between medium-term priorities and resource allocation

While there is a clear vision of Slovakia’s fiscal objectives acting as a top-down budget constraint, clear linkages to broader national or international objectives seem to be weak. In this way, stronger medium-term budgeting would serve as a vehicle to:

- provide assurance to policy planners about multi-year resource availability; and
- identify the appropriate medium-term goals against which resources could be allocated.

The above observation is based on the OECD Recommendation on Budgetary Governance (2015) which states that

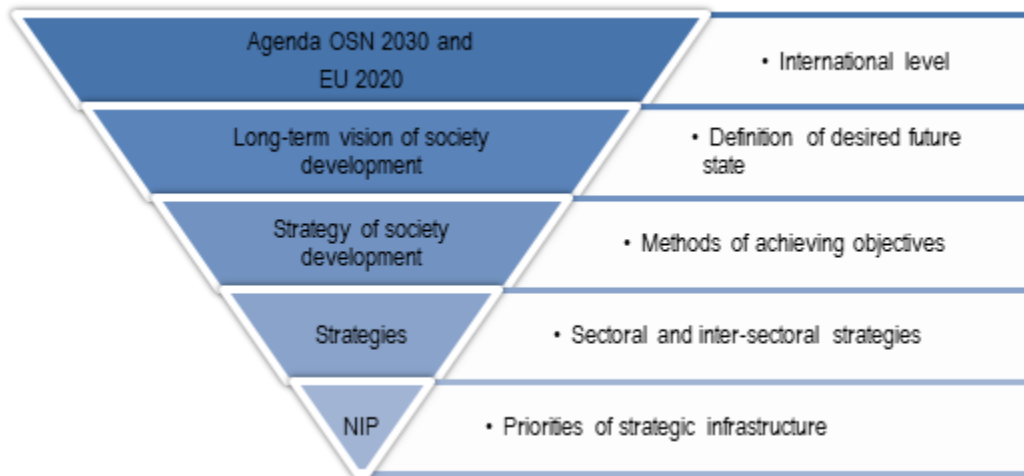
“budgets should be closely aligned with the medium-term strategic priorities of government, through organising and structuring budget allocations in a way that corresponds readily with national objectives and developing a stronger medium-term dimension in the budgeting process, beyond the traditional annual cycle.”

The Slovak Ministry of Finance’s main reference document for whole-of-government strategy is the National Reform Programme. The Ministry of Finance (Institute for Financial Policy and Value for Money unit) prepares this document and references the government manifesto (the coalition government’s election platform identifying policy priorities and action plans to implement them over the course of the

government's mandate). From 2019 onwards, the SDG agenda is expected to be reflected in the National Reform Programme planning document as well as in a new national long-term vision for the Slovak Republic.

Following a top-down approach, the high-level objectives of the national long-term vision are envisaged to be derived from United Nations 2030 and the EU 2020 Agenda, followed by a national long-term vision and a strategy of society development. These objectives are further translated into inter-sectoral strategies such as the National Investment Plan (NIP) (Figure 32). However, neither the national long-term strategy nor its linkages to resource allocations are in place at this time. To ensure that an improved budget planning process that is aligned to the national long-term vision does not only reflect the SDGs by definition, the government will have to ensure that these linkages are clear and verifiable.

Figure 32. Pyramid of strategic planning



Source: Road Map to National Infrastructure Plan of the Slovak Republic 2018-2030

A key element to identify the appropriate medium-term goals against which resources could be allocated is a collective decision-making approach. It should define the fiscal targets, medium-term priorities and corresponding expenditure ceilings necessary for the implementation of the national development vision. A key success factor of the previously discussed Swedish model is the practice of collective decision-making and policy-formulation (Box 34). In the context of the Slovak budget process, however, there remains room for improved collective priority setting.

A collective approach to priority setting may be supported by a pre-budget debate in parliament that informs and consults the legislature on fiscal policy and medium-term budget policy in this early stage. Such practice aims to promote transparency, encourage collective fiscally responsible legislative decision-making, and provide one opportunity to include a discussion on broader strategic national objectives into the budgeting cycle. An example is the Spring Fiscal Policy Bill in Sweden (Box 36.). Furthermore, strengthening the performance-based budgeting framework would also promote alignment between budget allocations and strategic plans of the government (as discussed in Section 4).

Box 36. Spring Fiscal Policy Bill in Sweden

To allow the government to frame the context for the annual budgetary process described in Box 35 in broad terms in the early part of the year, a “Spring Fiscal Policy Bill” is submitted to Parliament by 15 April each year. The Spring Bill includes comprehensive information on the fiscal policy outlook, perspectives on fiscal risks and long-term sustainability, a follow up of budgetary policy targets, and extensive baseline information on all areas of public spending. It focuses clearly upon medium-term fiscal plans and omitting details on expenditure, which is reserved for the Budget Bill.

The Spring Bill provides for parliamentary debate on fiscal policy, in general terms. As the Bill does not generally deal with detailed budgetary matters, in practice it serves to introduce greater transparency to the budget process to the benefit of the Swedish Parliament and the public in general. A functional benefit of the Spring Bill for parliament is providing a channel for parliamentary engagement in matters of fiscal policy prior to the drafting of the detailed budget.

During the preparation of the Spring Bill (February-April), high-level working groups involving the Ministry of Finance and the Prime Minister’s Office meet regularly to help identify political and policy priorities which ought to be reflected in the budget planning. These discussions are informal and help to structure thinking and planning processes; they do not lead to definitive policy conclusions at this early stage. However, when line ministries present their “budget request” in May, it is expected that they will reflect the discussions and orientations from the spring meetings.

Source: OECD (2016), Budgeting in Sweden, OECD Journal on Budgeting, Volume 2016, Issue 2

3.5. A strategic approach to capital investment to achieve medium-term priorities

High quality infrastructure is one of the backbones of long-term inclusive development. As highlighted by the OECD Infrastructure Governance Framework (2017), a necessary condition for a successful infrastructure programme is appropriate strategic planning. This requires identifying which investments to undertake, determining the essential components and trade-offs, and identifying how to prioritise them. Conversely, weak or insufficient planning often impedes the successful implementation and operation of capital investment projects. The reason why designing a clear and coherent strategic vision is difficult stems essentially from the complex nature of infrastructure investment.

Most OECD countries have a long-term strategic infrastructure vision that cuts across all sectors. Some countries, like the United Kingdom have developed cross-sectoral strategies for infrastructure investment complemented with prioritisation tools (Box 37). More than a third of OECD countries have both an infrastructure plan and long-term plans at the sector level. Co-ordination between these instruments is essential to ensure a clear strategic vision for infrastructure. The same proportion of surveyed countries reported having only infrastructure plans at the sector level. Most of these countries only have long-term plans for certain sectors (e.g. roads, railways, energy, housing, health). In particular, Germany has a robust system to plan and prioritise infrastructure projects in the transport sector (Box 38).

Box 37. Strategic planning and prioritisation in the United Kingdom

The United Kingdom government has implemented a series of reforms to improve infrastructure planning, appraisal, prioritisation, and financing in the medium and long-term. The first cross-sectoral National Infrastructure Plan (NIP) was published in October 2010. The NIP provided the United Kingdom with an integrated strategy to prioritise, finance and deliver projects in key infrastructure sectors such as; transport, energy, communications, flood-control, defence, water, and waste.

The strategic planning system is complemented by a five Case Model to appraise and prioritise infrastructure projects. The model is an adaptable framework that guides the development of business cases and decision-making processes using five key themes. The more detailed issues of each theme vary depending point in the project cycle. The five key themes of enquiry are the:

1. **Strategic Case:** the rationale for why an investment is required, and a definition of the outcomes and the scope of what is to be achieved;
2. **Economic Case:** to demonstrate that the use of public funds optimises public value, usually involving an assessment of the costs and benefits of a range of options;
3. **Commercial Case:** to demonstrate the viability of the competitive procurement and contractual (including risk allocation) arrangements;
4. **Financial Case:** to demonstrate that the preferred option will result in a fundable and affordable investment; and
5. **Management Case:** to demonstrate that the preferred option is capable of being delivered successfully, in accordance with recognised best practice.

Source: National Infrastructure Delivery Plan (2010), EPEC (2015), VfM Assessment Review of Approaches and key concepts (March 2015), derived from Green Book Supplementary Guidance (2013 and 2018).

Box 38. Multiannual Planning Framework for Transport in Germany

The Federal Ministry of Transport and Digital Infrastructure uses a multiannual planning framework in the form of the federal transport infrastructure plan.

Methodology analysis framework

The transport plan covers a "long list" of projects that are evaluated according to Cost-Benefit Analysis (CBA). The list of projects is constructed based on the ministry's assessment of pressing economic infrastructure and regional development needs. For a particular project a more sophisticated methodology of analysis is applied, which includes key components such as, reduced transportation costs, travel time, safety benefits, security, regional economic/social impact, job creation and derived economic effects. The methodology is publicly available. If the result is positive (i.e. a benefit to cost ratio above, one) the project is included in the plan. Projects are ranked according to their score, the expected need for the project and the assessed urgency of the project.

Planning and Budgeting process framework

The federal transport plan is adopted by the federal government in its *Planning Act*. The next step are the requirement plans, which are also set in federal law (regarding federal roads and rail). When the

requirement plans are passed, they are operationalised into the five-year investment plans. This aligns with the medium-term financial planning framework for budgeting specific projects. However, the fact that an infrastructure project is accepted does not mean that its financing is assured. Financing for a project is then allocated in the budget process.

In a typical project cycle in Germany, the Federal Ministry of Finance is part of the steering committee of projects, ensuring that it is part of the project monitoring process. The Federal Ministry of Finance must give its approval for the project to move forward and notifies the parliament's budget committee. For instance, regarding transport infrastructure, the Federal Ministry of Finance negotiates the budget for the planned projects for a given year with the Federal Ministry of Transport.

Source: OECD (2015), "Budget Review: Germany", OECD Journal on Budgeting, vol. 14/2.

In Slovakia, line ministries assess and prioritise the capital investment needs. Currently, each ministry develops its own departmental strategy that generally includes a list of planned investment projects, based on political priorities, project preparedness and available funding. Projects across sectors are generally not compared against each other, and the capital-spending limit of each line ministry is decided within the budget process. Of note, the Ministry of Transport and Construction has developed a long-term strategic document, aiming to set a clear direction to develop the transport sector and specific implementation actions (Box 39).

Box 39. 2030 Strategic transport development plan of the Slovak Republic

In December 2016, the Slovak Ministry of Transport published its Strategic Transport Development Plan (STDP) to provide a comprehensive plan for transport infrastructure development. The document was created from both a bottom-up and a top-down approach. Five working groups for different types of transportation provided a bottom-up analysis for road transport, rail transport, public civil transport, water transport and civil aviation. To ensure co-ordination, the five sectoral analyses were integrated into a single strategy.

Since transport sector development is crucial for cross-cutting policy objectives, national and European strategic documents (including the Roadmap to a Single European Transport Area, Agenda 2030, European Strategy for low-emission mobility) were taken into account during its formulation. The document identifies key gaps in main transport sectors; identifies strategic goals; and defines organisational and operational measures to achieve them. Furthermore, the STDP is subject to a strategic environmental assessment (SEA), with the objective of securing high level of sustainable development.

Source: Strategic transport development plan of the Slovak Republic until 2030

Recently, an initiative has been launched to develop a more integrated approach, and to establish a national long-term strategic vision that addresses infrastructure service needs in Slovakia. The Deputy Prime Minister's Office for Investments and Informatisation is currently developing a National Investment Plan (NIP) that identifies investments required at the national level to implement its 2030 Agenda, a long-term vision for the future of the country, as well as its National SDG Agenda.

One of the key objectives of the NIP is to increase predictability and stability of public infrastructure investment, and to mobilise private sector financing. The NIP responds to an increased pressure to implement outcome-oriented spending, and to the challenge of potential reduction on EU funds availability after 2020. Therefore, active private sector participation and co-financing will be essential to implement

the plan. To be of use and attract potential investors, the Slovak Republic should ensure that the plan is underpinned by proposed financing strategies and delivery modalities. The NIP should cover sectors where responsibility for service delivery lies primarily with the central government, including transport (motorways, railways and airports), energy, ITC, research and innovation, healthcare, environment, agriculture and forestry, social inclusion and employment, and regional development. It is also aimed to include investment programmes and projects to support the development of a green economy.

As discussed under Section 3.4, the NIP was developed under a broader logic of strategic planning in Slovakia, following a top-down approach. Derived from United Nations 2030 and the EU 2020 Agenda, it translates the national long-term vision and a strategy of society development into concrete priorities of strategic infrastructure. The initial draft of the NIP prepared by the government is a step towards having a more integrated approach to infrastructure planning. Slovakia is currently preparing the Vision and Development Strategy 2030, which will integrate sectoral and regional priorities on the basis of the national Agenda 2030 priorities. Based on this document, the updated version of the NIP will be prepared, comprising of the strategic investment packages as recommended by the OECD (OECD seminar on Strategic Investment Packages, 15-16 March 2018, Bratislava).

However, there are still many areas for further improvement. A key barrier to the development of linkages between the NIP and the EU and UN strategic agenda is, however, that to date the strategic planning system has not yet been fully implemented and the national long-term vision and strategy have not yet been developed.

The design of a long-term infrastructure vision requires a process that distils complex and multi-faceted infrastructure issues, cutting across a multiplicity of actors, sectors and interests, into a coherent set of decisions with long-term impact, including projects and processes. As highlighted by the OECD in the comments provided to the first draft of the NIP, there is scope to articulate synergies and trade-offs between sectors, as well as develop trans-sectoral investment prospects. Currently, the plan is a bottom-up list of projects covering a wide number of sectors. However, addressing transversal issues, complementarities and trade-offs between infrastructure projects should be integral to the overall plan.

Ideally, the strategy should provide guidance on how the needs should be met, although there has to be room for adjustment as more information is gathered. The current NIP is lacking tools to prioritise projects within and across sectors. There is a clear need to show how and according to what considerations projects are prioritised within the plan. In addition, there are no mechanisms in place to monitor, report and update the plan. Such mechanisms would require a systematic collection of data to ensure that the financial and non-financial information of investments are included in a register of investments within the BIS and reported on annually in the budget.

Finally, strategic planning need to be linked to fiscal planning. In the case of Slovakia, the NIP does not provide information on infrastructure financing and there is no link with the annual and multi-annual budget allocation process. While currently, NIP provides an overview of upcoming investments, it lacks additional analytical assessment and instruments to ensure comparability of investments from different areas. Moreover, returns from investments are not stated.

To date, the Ministry of Finance had limited participation in the discussion and preparation of the NIP. Hence, enhancing a well-defined active participation of the Ministry of Finance in the discussion and preparation of the NIP, as well as improved co-operations across ministries is essential. In particular, the Ministry of Finance's Value for Money Unit can provide expertise on feasibility, impact and prioritisation of relevant investment projects, and could support the DPMO to define criteria and considerations to prioritise projects within the plan and to address complementarities and trade-offs.

The Value for Money Project has strengthened project preparation and evaluation

In the Slovak Republic, contracting authorities make an initial assessment regarding the choice of delivery mode. Support for project preparation for PPPs from the Ministry of Finance is contingent on the project proposal satisfying a set of criteria. As part of the feasibility study, contracting authorities are required to perform a value for money analysis applying a public sector comparator. Recent reforms have strengthened the project evaluation process. In particular, the government adopted a methodological framework for the preparation and evaluation of large investment projects according to the principles of value for money (see Section 2). This has strengthened the project appraisal process for large projects. In the future, it is expected that every line ministry should use their individually adapted methodology based on an existing general framework. However, there is no concrete timeline for implementation.

Feasibility studies are prepared directly by spending units that submit them to the Value for Money Unit at the Ministry of Finance to start with the review process. Every study focuses on five main topics: i) objective of investment; ii) demand; iii) alternatives; and how iv) costs and v) benefits are calculated in the feasibility study. The Value for Money Framework gives non-binding recommendations based on cost benefit analysis and input values. There are, however, no specific tools or process to monitor the implementation of these recommendations.

3.6. Recommendations*Reinforce the medium-term dimension for stable budget planning*

6. **Introduce a strategy debate of government into the budget cycle to enhance collective fiscal responsibility and priority setting.** A collective approach as discussed in Section 3.4 to the definition of fiscal targets, medium-term priorities and corresponding expenditure ceilings, and bottom-up baseline projections would strengthen the commitment to annual and multi-annual ceiling and enhance transparency and accountability. As part of this strategic debate, Slovakia should consider developing a designated stand-alone document to frame realistic medium-term expectations for the allocation of resource and which could serve as a strategy document to align broader strategic objectives. Such a document should align to the EU-related stability programme. An example of such fiscal statements is given in Box 37.
7. **The multi-annual expenditure ceilings for total expenditures and ministerial envelopes should be eventually binding.** By their very nature, high-level fiscal ceilings are set in a medium-term context. For the medium-term framework to work effectively, estimates and ceilings need to be reconciled within the context of a forward-looking approach to budgetary planning and policy formulation.
 - The MTEF may be specified at the level of ministries. Keeping expenditure ceilings at Chapter level allows reaping the benefits of controlling the expenditure growth path, providing and the spending units with predictability in their revenues resources to carry out their policies, while retaining sufficient flexibility.
 - Expenditure ceilings should include incentives and flexibility to ensure expenditure boundaries are respected, for example by building in a “budget margin” as a buffer amount, which is not allocated in the expenditure ceiling.

Link strategic infrastructure planning to the budget process

8. **Enhance co-operation across Ministries and sharing of expertise.** This would entail a well-defined active participation of the Ministry of Finance in the discussion and preparation of the NIP. In particular, the Value for Money Unit can provide expertise on feasibility, impact and prioritisation

of relevant investment projects. This will also support the DPMO to define criteria and considerations to prioritise projects within the plan.

9. **Ensure a top-down approach of the development of the NIP to ensure the strategic prioritisation of infrastructure projects** complementing the project by project assessment performed by line ministries. A top-down approach maintains the focus on policy objectives rather than projects, and helps form a strategic view on where investments are most needed. This implies a vision for the desired future state, which requires the government to set clear, high-level strategic objectives when determining the future infrastructure need. Inter-departmental or ministerial committees could support the design of infrastructure strategies. An effective top-down approach also requires an understanding of present conditions in the form of the current needs of the population and gaps in access to key services. Decisions on what infrastructure to build can be framed as part of a broader strategy for bridging the present and the future.
10. **Identify and manage major future risks and uncertainties in infrastructure planning.** A useful tool to future-proof infrastructure plans is to use analytical methods such as a scenario-based approach. This type of analysis can be used to test projects flexibility, identify the factors that are essential for the project to deliver its expected outcomes, and provide insight on alternatives to deal with future constraints to infrastructure investment. Scenarios can also help the policy maker develop a list of alternative options for investment depending on the future state of the economy (OECD, 2017).
11. **Implement a system to monitor the implementation of the NIP.** To provide the systematic collection of data, ensure that the financial and non-financial information of investments are included in a register of investments within the BIS and reported on annually.
12. **Clearly link strategic infrastructure planning with fiscal planning.** The NIP need to provide information on financing strategies and potential delivery modalities. Infrastructure projects under the NIP should be reflected in the annual and multi-annual budget allocation process. Furthermore, infrastructure plans should include an assessment of implementation costs and a projection on the potential sources of financing. In a fiscally constrained environment, the plan should balance assessed infrastructure needs with medium-term fiscal projections and other potential source of financing. Debt management needs to be assessed within the strategic investment plan. The strategic plan should inform investment decision in the medium and long term. However, it should retain some flexibility and it should be periodically updated in order to respond to emerging challenges and opportunities.

4. A performance and evaluation framework aligned to budget allocations

4.1. Summary

Performance budgeting is a key instrument to enable governments align budget allocations to important policy objectives. It supports governments to assess whether the policy objectives, for which spending was committed, are in fact being achieved. Although Slovakia has had a framework for programme and performance budgeting since 2004, the performance system has lost momentum and has become somewhat formalistic rather than contributing to accountability and informing the allocation of public resources. For example, while in 2004 there was an active working group on introduction of performance-based budgeting, headed by the Ministry of Finance and including all budget directors from line ministries, it was resolved later. Strengthening the performance aspects of the budgeting system would help decision-makers gain more value from the budget framework.

4.2. Budgeting for performance

A key aspect of performance budgeting is outcome orientation. According to the OECD, performance budgeting can be defined as “the use of performance information to inform budget decisions, whether as a direct input to budget allocation decisions or as contextual information and/or inputs to budget planning, as well as to instil greater transparency and accountability throughout the budget process, by providing information to the public on performance objectives and results” (OECD, 2019^[6]).

Since 2004, the Slovak Republic has had a programme budgeting framework in place with one of the key objectives to enable line ministries to better align expenditures to the policy goals of the government. The Slovak programme budget follows a three-level approach, providing the structure to link budget allocations to information about performance, objectives and results. Each Budget Chapter is divided into programmes, sub-programmes and individual projects or items. While the overall objective of each programme does not necessarily correspond to the policy priorities defined in the government’s manifesto, line ministries are advised to use the manifesto as guidance when doing so. At the lowest level of the programme structure, individual projects include a description of the outcomes to be achieved and contain indicators to monitor and evaluate the projects.

Similar to other OECD countries, programme budgeting in Slovakia follows a “presentational performance budgeting” approach (Box 40). This means that it is not designed for decisions on budget allocations, and is for supplementary information purposes only. A recent survey of OECD countries suggests that in most countries performance budgeting had most impact as a communication tool, increasing transparency around the budget, and enabling parliament and citizens to understand the objectives of public spending and the results achieved (OECD, 2019^[6]).

Box 40. Performance budgeting approaches in OECD countries

The OECD identifies four models of performance budgeting. These models reflect the differing relationship between budgeting and performance data and the extent to which performance budgeting has a top-down or a bottom-up management perspective. Nevertheless, each national performance budgeting framework takes account of individual country circumstances, including administrative capacities, culture and priorities.

1. Presentational performance budgeting

Performance information is presented with budgeting documents or other government documents but is included as background information for the purposes of accountability and dialogue with legislators and citizens on public policy issues and government direction. Performance information does not play a significant role in decision making on allocations nor is it intended to do so.

2. Performance-informed budgeting

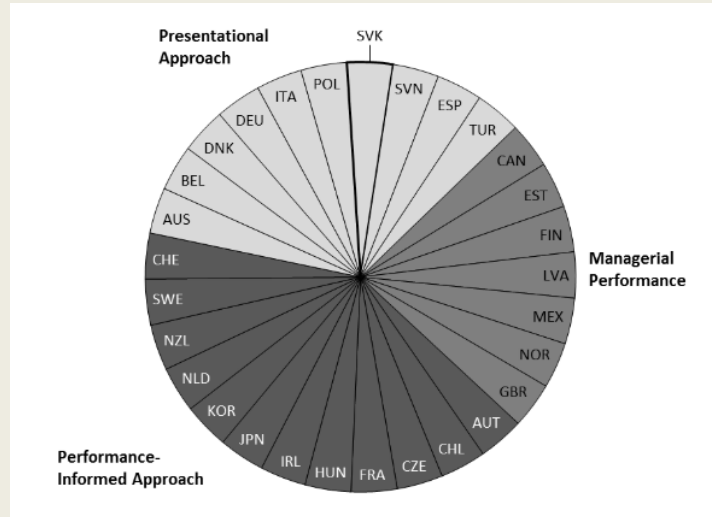
Performance information is presented alongside the financial information and is expected to play a role in spending decisions; however, resources are related either to proposed future performance or to performance results in an indirect manner. There is no automatic linkage between performance and funding levels. The weight given to performance information depends on particular circumstances.

3. Managerial performance budgeting

Using the system of performance information developed in the context of the budget process primarily as a tool of performance management and accountability at an organisational and management level, rather than primarily as a tool of resource allocation.

4. Direct performance budgeting

There are explicit links between budget allocations to units of performance (e.g. outputs). Funding is directly linked with results achieved. Appropriations can thus be based on a formula/contract with specific performance or activity indicators.



Source: Source: OECD Performance Budgeting Survey 2018; (OECD, 2019^[6]) (OECD, 2008^[14]); Policy Brief: Performance Budgeting: A User's Guide.

In theory, the Slovak system requires all line ministries to define programme objectives in line with the government's manifesto; as well as corresponding outcomes and measurable indicators on sub-programme and project level. In practice, however, this is not systematically implemented. Furthermore, while many line ministries submit goals, objectives, and indicators into the BIS, the quality of the information can vary. To address the issue the Ministry of Finance provides some guidance including:

- Methodology for programme budgeting which sets the general framework for programme structure formulation, the approval process and execution. It also provides instructions to monitoring and evaluation.
- Manual on programme budgeting which provides detailed information on how to formulate goals, objectives, goals and measurable indicators. The Ministry of Finance also produces illustrative examples of programmes.
- Manual for monitoring and evaluation was developed after introducing monitoring and evaluation into budget process in 2010.

However, these manuals are not always applied and there remains room for the improvement of the quality of the performance material for decision making or for information and transparency purposes. For example, the evaluation function is optional, and line ministries have produced few evaluation reports. Monitoring is performed on a more regular basis, but by the same people that are responsible for programme management, which could challenge objectivity. Although the Implementation Unit under the Prime Minister's Office (PMO), offers assistance to ministries with the aim to improve their performance and evaluation system (Box 41), there is no central management of the monitoring and evaluation function and no follow-up on the monitoring reports.

Incentives to improve the quality of performance information remain low. To strengthen the performance budgeting system, the benefits of performance information need to be re-established communicated to line

ministries and parliament. Unless the budget system makes use of performance information there will be little incentive for line ministries to provide or use the information. By way of example, several line ministries reported that they have considered ceasing to voluntarily report performance information. This development reflects removing performance objectives in the 2015 budget information.

It will therefore be important to strengthen the discussion of performance information during the budget formulation and during the approval phase in parliament. This will require dedicated time to the discussion of performance objectives, indicators and their evaluation during the budget approval sessions in autumn. Plans by the DPMO to create a targeted parliamentary committee to report on the progress towards the National Development Plan can contribute to this outcome. In general, adopting a more participative, inclusive approach to the development and evaluation of outcome objectives may be considered more in depth when modernising the Slovak system.

However, high-quality performance information is needed to provide relevant information that can be used in the budget process and to increase the value of parliamentary budget debates. By providing meaningful performance information, performance budgeting can facilitate a more outcome-focused discussion in parliament and the public, and challenge the line ministries to provide meaningful qualitative information regarding their objectives.

Box 41. Performance budgeting in the Ministry of Health

Recently, the Slovak Ministry of Health started to develop a new approach to the performance budgeting of health insurance expenditures.

In contrast to other line ministries, the Ministry of Health operates with two separate budgets. The minor part financed by the state budget covers mostly administrative expenditures, and is, according to budget rules, budgeted in programmes. The second part, funded by the Health Insurance Company, is part of the Budget of Other Subjects of general government, accounting for over 5% GDP. It covers health expenditures and most of the capital investments.

To improve efficiency and performance monitoring for health insurance expenditures, the Ministry developed a new, programme-based structure organised by types of care. This new structure allows the Ministry to track spending in a more accurate and transparent way leading to more efficient allocation of expenditure and a more detailed and accurate baseline of expenditure. In a second step, the Ministry, in co-operation with the Implementation Unit of the PMO, is defining key performance indicators for every programme to improve monitoring and evaluation.

Despite positive experiences with the new system in terms of transparency, several problems remain, in particular regarding accountability. Although the Ministry of Health acts as a regulatory body, it has no power over decisions about budget allocation of the Health Insurance Companies. It can therefore not be held responsible for poor performance of activities that are conducted by Health Insurance Companies. This undermines the use of performance information to adjust and improve budget allocations.

Source: Based on information from Ministry of Health

The efficient use of performance information is a challenge for all OECD countries. Notable developments, however, have taken place in many countries with regard to the quality of indicators and a better balance between the need for sufficiently detailed information for transparency and decision making, brief and concise information for communication, and limited additional workload (OECD, 2019^[6]). An example how to achieve this balance is the introduction of greater selectivity in the presentation of performance information (Box 42).

Clearly defined high-level objectives linked to government priorities would help to generate more policy discussion on the most efficient way to allocate funds to achieve government priorities and national targets. In Slovakia, objectives and targets are set at a much disaggregated level. In addition, these targets are process targets rather than output or outcome targets. High-level performance objectives should clearly reflect the policy priorities for which the government and public administration will be accountable. The government manifesto should in turn be designed with a view to its fundamental role as an “anchor” for outcome-orientation in policymaking and in budgeting. Furthermore, using a more selected set of internationally comparable indicators could help Slovakia to reinforce the relationship between performance information, budget allocations and the national objectives in correspondence with key Sustainable Development Goals (SDG). Clearly-linking performance information to the government’s priority goals could furthermore promote debate on policy impacts.

Box 42. Greater selectivity for improved performance information

Performance indicators in France

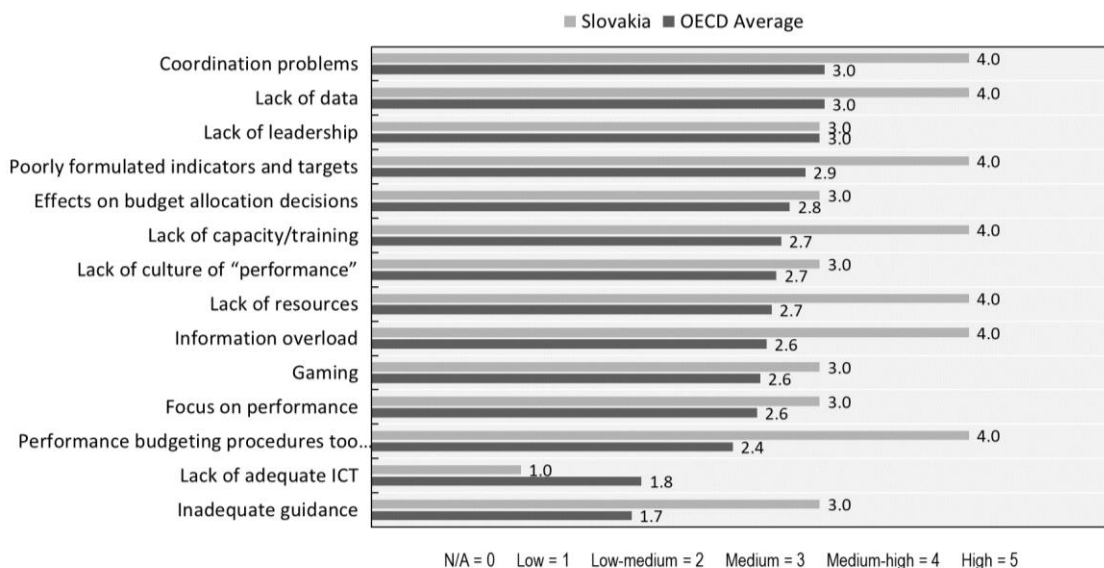
France offers an example of strong links between key performance indicators established at national level and budgets. France’s organic budget law (*Loi organique relative aux lois de finances (LOLF)*) groups expenditures by “missions” that bring together related programmes that are associated with high level policy objectives and performance indicators. Recent reforms have additionally focused on streamlining the indicators to make them clearer to parliamentarians and the public; France enacted a law in 2015 requiring the Government to present wealth and well-being indicators other than GDP to promote debate on policy impacts. Based on the LOLF system the French government is developing a strategic dashboard using a limited set of internationally comparable indicators, including:

- Economic development indicators such as Foreign Direct Investment (OECD) and Doing Business (World Bank).
- Social progress indicators, such as healthy life expectancy at 65 by gender (OECD), percentage of 18-24 year olds with no qualification who are not in training (France Stratégie/Eurostat) and poverty gaps (World Bank).
- Sustainable development indicators such as greenhouse gas emissions per unit of GDP (European Energy Agency/Eurostat).

4.3. A greater role for co-ordination

According to OECD Performance Budgeting Survey 2018, challenges in most OECD countries when implementing performance budgeting include co-ordination and leadership – challenges that were also identified as major impediments of the Slovak System (Figure 33), together with poorly formulated indicators and targets, lack of data capacities, and information overload (see previous section).

Figure 33. Main challenges for the implementation of performance budgeting




Source: OECD Performance Budgeting Survey 2018

Inter-agency co-ordination becomes particularly important in the context of cross-cutting policy priorities. Achieving progress on the SDGs and Slovakia's national priorities will require evaluation, co-ordination, consultation and collaboration across numerous policy areas. For example, action against climate change and environmental degradation requires multiple coherent actions in areas ranging from infrastructure investments, environmental regulations and tax incentives to public education and awareness. The United States offers an example of institutionalised mechanisms to promote co-ordination around cross-agency performance goals (Box 43).

Box 43. United States – Co-ordination of cross-agency priority goals

The Government Performance and Results Act (GPRA) Modernization Act of 2010 (GPRAMA) requires the Office of Management and Budget (OMB) to coordinate with agencies to develop cross-agency priority (CAP) goals, which are four-year, outcome-oriented goals covering a number of complex or high-risk management and mission issues.

Examples of CAP goals and goal statements.

Examples of CAP goals and goal statements	
 <p>Customer Service Increase citizen satisfaction and promote positive experiences with the federal government.</p>	 <p>Job-Creating Investment Encourage foreign direct investment by improving federal investment tools and resources, while also increasing interagency coordination.</p>
 <p>Open Data Improve government efficiency and effectiveness by unlocking the value of government data.</p>	 <p>People & Culture Innovate by unlocking the full potential of the workforce we have today and building the workforce we need for tomorrow.</p>

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Source: Performance.gov | GAO-16-509

The OMB and the Performance Improvement Council (PIC) have introduced a goal governance structure that includes agency leaders, and regular senior-level reviews on CAP goal progress. CAP goal teams reported to the US Government Accountability Office (GAO) that the CAP goal designation increased leadership attention and improved interagency collaboration on these issues.

Source: (OECD, 2019^[6])

In order to integrate cross-cutting strategic development goals into the budget process, a sustained partnership between the DPMO and the Ministry of Finance is crucial. The OECD Recommendation on Budgetary Governance calls on governments to “*closely align budgets with the medium-term strategic priorities of government*,” including through “*nurturing a close working relationship between the Central Budget Authority (CBA) and the other institutions at the centre of government (e.g. prime minister’s office, cabinet office or planning ministry), given the inter-dependencies between the budget process and the achievement of government-wide policies*”.

Nevertheless, communication and information sharing is ongoing. While the Slovak Ministry of Finance maintains a key role during budget formulation and execution, the Deputy Prime Minister's Office for Investments and Informatisation (DPMO) has been assigned the co-ordination of SDG implementation at national level, as well as strategic planning and the co-ordination of investment projects within the development of a national strategic investment framework. Despite existing co-ordination mechanisms, such as the *Council of the Government* and the *Inter-ministerial working group on the Agenda 2030 and the National Investment Plan*, designed to co-ordinate shared responsibilities, more work is required to operationalise the mechanisms. A centralised competence for co-ordinating cross-cutting objectives, including quality-control on performance information associated with broader policy priorities, and indicator development, could help to institutionalise co-operation across the key agencies and develop a functional system of programme budgeting. Such entity would furthermore be a key player with respect to performance evaluation.

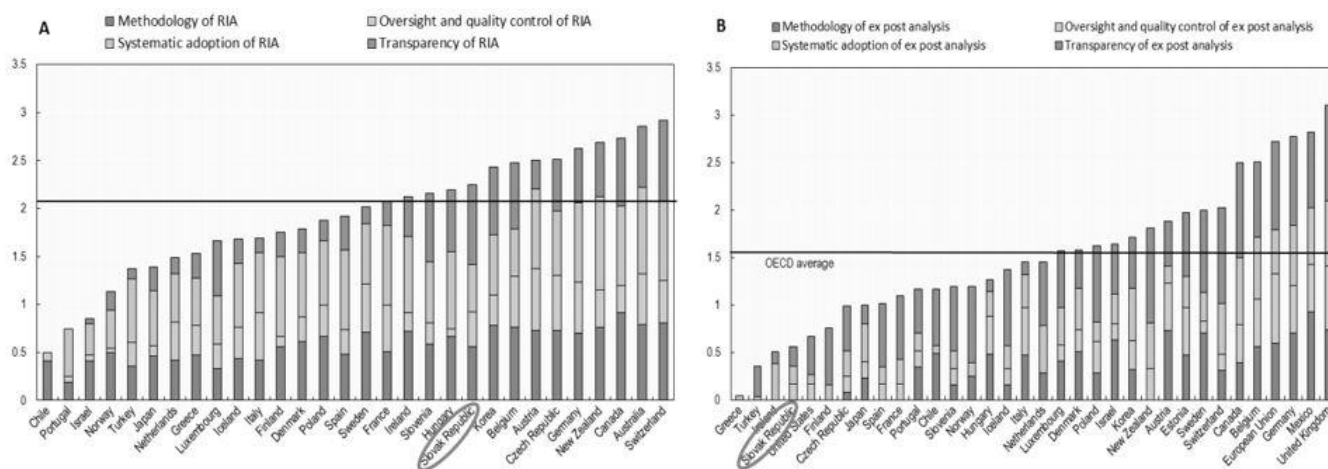
4.4. Programme evaluation is essential to ensure effective public spending

Evaluation should be undertaken to feed back into the strategic budget decision-making process and boost transparency and accountability for the management of stewardship of public funds (OECD, 2019^[6]).

Monitoring and evaluation elements play a secondary role in Slovak's programme budgeting system. Since 2010, line ministries and agencies are encouraged to monitor and evaluate their programmes on a voluntary basis. This includes performance evaluation of programmes during programme formulation (*ex ante*) and after budget execution (*ex post*). Effective implementation however, is perceived rather low and not relevant for decision processes and increased transparency. In international comparisons, Slovakia scores around the OECD average in terms of overall quality of *ex ante* impact assessment of primary laws, but demonstrates low quality of *ex post* evaluation (Figure 34). In particular, systematic adoption, oversight and quality control achieve low results. *Ex post* evaluation, furthermore, shows a low degree of transparency and lacks a defined methodology.

Regulatory impact assessments (RIA) are conducted directly by line ministries and evaluated by a committee at the Ministry of Economy. The impact assessments analyse expected impacts in various policy dimensions (budget impact assessment, business environment assessment, social impact assessment, environmental impact assessment, IT impact assessment, impact on GG services for citizens' assessment). They however do not include an explicit performance-orientated part related to outcome objectives and corresponding indicators. Particular progress has been made by the recent introduction of mandatory *ex ante* evaluation for the appraising of large capital investment projects (see Section 3.5). In this context, notably the Ministry of Transport in co-operation with Ministry of Finance has made progress in evaluating investment projects and publishing data to the public.

Figure 34. Regulatory impact assessment (A) and *ex post* evaluation (B) for developing primary laws in OECD countries (composite indicator)



Note: Panel A: The results apply exclusively to processes for developing primary laws initiated by the executive. The vertical axis represents the total aggregate score across the four separate categories of the composite indicators. The maximum score for each category is one, and the maximum aggregate score for the composite indicator is four. This figure excludes the United States where all primary laws are initiated by Congress. In the majority of countries, most primary laws are initiated by the executive, except for Mexico and Korea, where a higher share of primary laws are initiated by parliament/congress (respectively 90.6% and 84%).

Source: OECD (2015), OECD Indicators of Regulatory Policy and Governance (iREG), <http://www.oecd.org/gov/regulatory-policy/indicators-regulatory-policy-and-governance.htm>, based on the 2014 OECD Regulatory Indicators Survey results. Data for Brazil, Colombia and Costa Rica are from OECD Indicators of Regulatory Policy and Governance (iREG) for Latin America 2016 <http://www.oecd.org/gov/regulatory-policy/iireg-lac.htm>.

Although *ex post* evaluation is conducted by most line ministries, they are voluntary and the quality can vary. As reported by stakeholders, in some cases, *ex post* evaluation, which is recommended to include in the closing accounts of individual budget chapters⁷, is limited to a few lines submitted into the BIS. The OECD was not aware of any quality assurance by the Ministry of Finance over evaluations. Slovakia needs to strengthen its capacities for *ex post* evaluations, in particular for co-ordinating cross-cutting objectives,

and quality-control on performance information associated with broader policy priorities, indicator development, and performance evaluation (Box 44).

Box 44. Programme evaluation in OECD countries

Korea

In Korea, the programme evaluation process seeks to measure the relevance, efficiency, and effectiveness of a programme. The *In-depth Evaluation of Budgetary Programme* institutionalised the in-depth evaluation process as part of the performance budgeting system. Every year, an evaluation panel is created for each of the group of cross-cutting programmes selected for evaluation. Panel members mostly come from public research institutes and universities and since many stakeholders are involved in any given programme, the evaluation panel holds frequent meetings to collect inputs and feedback. The completed evaluation reports are considered by the central budget office, which decides whether to reflect these results in resource allocation changes or programme consolidation. Line ministries are required to report with their follow-ups.

Austria

Austria's system of impact assessments is an advanced practice in international terms. It applies a mandatory basis across spending and regulatory policy areas, on both *ex ante* and *ex post* basis, with systematic links to the performance budgeting system, facilitated by an IT system and overseen in most cases by the Federal Chancellery. Since April 2015, the impact assessment system is applied in two tiers, with thresholds applying across various impact dimensions to determine the scale and scope of the assessment. If the threshold criteria are not surpassed, a "light" version of the impact assessment may be used, with fewer requirements for data as outcome indicators or *ex post* evaluations are not obligatory. In addition, impact assessments may be applied on a "bundled" basis to a series of initiatives that form part of a common policy initiative. This "bundling" also applies to spending programmes with similar aims.

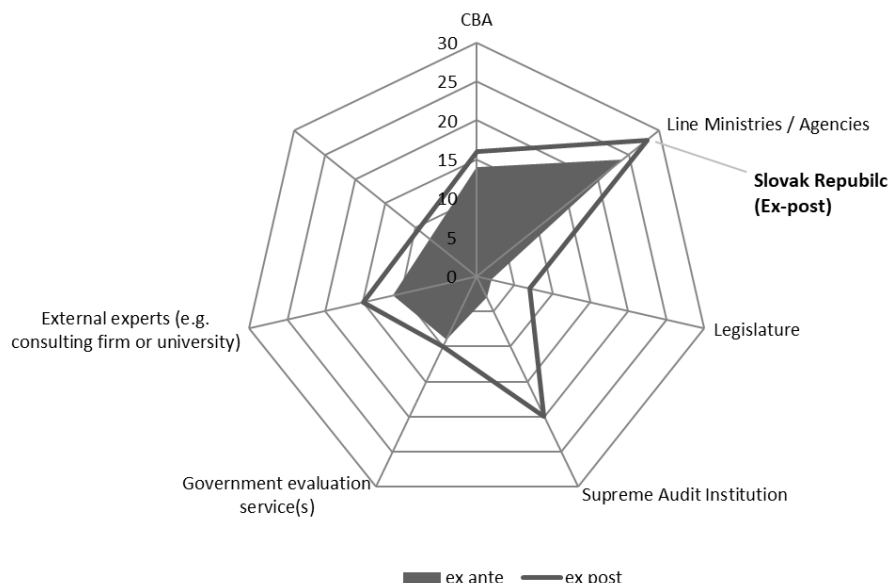
Source: (Downes, Von Trapp and Jansen, 2018^[15]); (OECD, 2019^[6])

The Supreme Audit Office of the Slovak Republic conducts periodic evaluation of performance information, including an assessment of the coherence of performance-objectives and outcomes with the national strategic plans, the Agenda 2030 and the stability programme, as well as the implementation of evaluation results. Recommendations by the Supreme Audit, however, are published as an opinion with no obligation of any actions being taken by the relevant line ministry.

As the use of self-evaluation without comprehensive external scrutiny can undermine the quality of evaluation, some OECD countries let external auditors conduct evaluations, such as academics, consultancies, and other organisations commissioned by government. In some cases, the government has set up arm's-length bodies, which commission or synthesise evaluations, with varying levels of autonomy and independence (Figure 35).

Figure 35. Governance of Evaluation in OECD countries

Number of OECD countries



Source: OECD, 2018 Performance Budgeting Survey

However, *ex post* evaluation of performance information, does not appear to feed into the decision-making process. According to OECD (forthcoming^[5]), the single most important problem preventing evaluations from impacting on budget decisions in OECD countries is the absence of a mechanism to consider evaluation findings in the budget process, followed by insufficient bureaucratic and political interest in the evaluation findings.

A more systematic approach to *ex post* assessments, could a) reinforce the importance of well-defined objectives and indicators; b) highlight what and how measures had a substantial impact on any SDG or national goals; c) provide feedback that can be integrated into the policy making process. While Slovakia's performance system currently aims to improve transparency and accountability, ideally, the evaluation system should also be geared towards identifying ineffective or low priority government programmes that should be terminated or scaled back to assist either in reducing government expenditure or in creating additional budget space for high-priority new expenditures (OECD/Korea Development Institute, 2017^[16]).

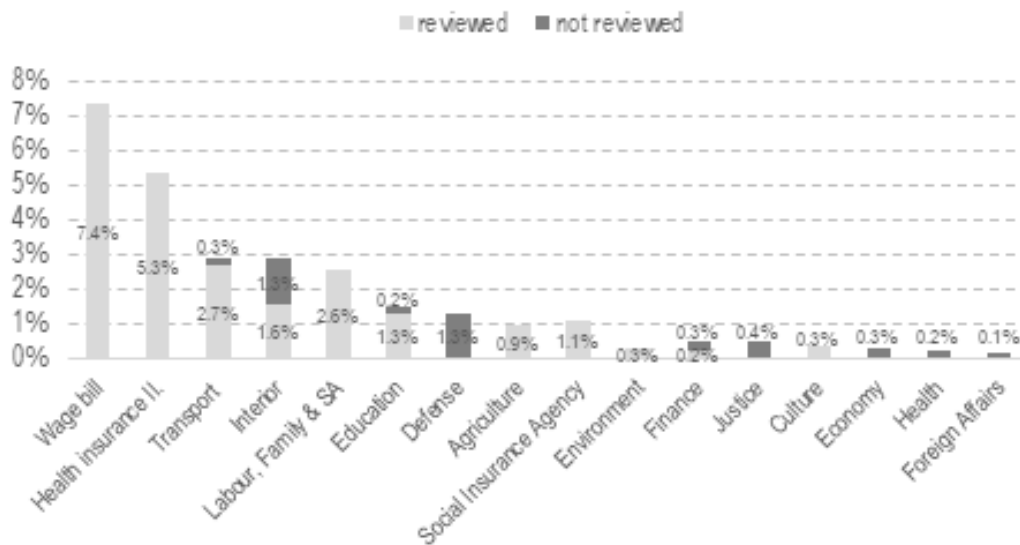
Spending Reviews improve the efficiency and effectiveness of public spending

Spending reviews are a distinctive tool to closely scrutinise the purposes and value of existing programmes and expenditures, and (in some countries) to expand fiscal space for policy initiatives. Since 2016, the Value for Money Unit of the Ministry of Finance started conducting spending reviews on a rolling basis, filling to some extent the gap to assess performance of the budget programmes. Spending reviews can be a relevant tool to review and evaluate existing policies and expenditures with regard to government-wide developments and objectives. In a number of OECD countries, the practice of spending reviews has proven effective for the re-prioritisation of spending or the identification of expenditure reductions.

Like in the most OECD countries, spending reviews in Slovakia are an annual exercise, which proceeds on a rolling basis (usually 3 reviews per year). The Slovak spending reviews are executed by joint teams of internal analytical units composed of staff from the Ministry of Finance and the relevant Line Ministry, co-ordinated by the Value for Money Unit at the Ministry of Finance. The individual topics for review are

proposed by the Ministry of Finance and approved by Government, in parallel with the preparation of the strategic documents (the stability program, the draft budget plan and the GG Budget.). Since 2016, spending reviews have focused on health, transport and informatisation (2016), and environment, education and labour market and social policies (2017).

Figure 36. Public spending, covered by a spending review, % GDP



Source: Ministry of Finance, Value for Money Unit

The Ministry of Finance envisages a fourth round of spending reviews for the coming year. In 2018, the Slovak Government enacted a law, which will introduce a series of rolling policy and thematic reviews with the aim of covering of government over a four-year parliamentary term, starting in 2020. Such cross-cutting assessments of the budget's impact can be used to promote horizontal government priorities and/or the SDGs. Applying such a perspective on evaluation would enable the government to track progress towards these priorities, and could enhance scrutiny by parliament and civil society. This next cycle of spending reviews would provide a chance to assess performance of cross-cutting expenditure programmes, and the programme budgeting system. Some OECD countries use cross-sectoral spending reviews that are focused on inter-agency collaboration to support government goals.

In order to monitor the effective implementation of the measures identified by the reviews, a special Implementation Unit (IU) has been created. The IU is located within the Prime Minister's Office⁸ to ensure a whole-of-government approach. The IU is responsible for the process of implementation of measures by defining target values for the given year (in case that the spending review did not specify volume of measures for specific years) and the means of reporting for responsible institutions (implementation plans). The IU is to produce an interim report (after 6 months) to evaluate measures, provide recommendations for the next 6 months and prepare quarterly dashboards. A comprehensive implementation report (final report) is a separate annex to the stability programme and is prepared once a year. The work by the IU is for guidance, as its findings are not binding. The first implementation report for 2017 reported 59% execution of measures on average. Total implemented savings amounted EUR 83 million (EUR 79.8 million in healthcare and EUR 3.2 million in transport).

As common for sectoral spending review processes, identified savings remain in the budget of the reviewed line ministry. While this may limit the control on the efficient use of the freed resources by the Ministry of Finance, it increases the incentives for the efficient implementation of identified measures and frees fiscal

space for line ministries to accommodate priorities that may have otherwise been requested to the Priority Reserve Fund.

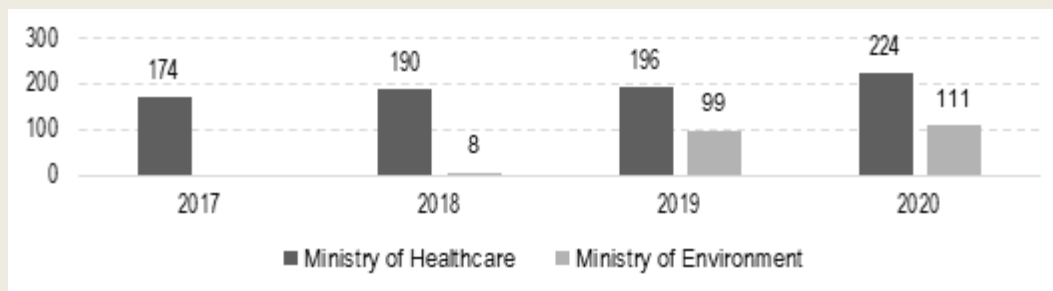
Since 2016, public expenditure amounting EUR 20.3 billion (24 % GDP, 59 % public expenditure) were reviewed. The realised savings resulting from the 2016 reviews undertaken in the health, transport and informatisation totalled EUR 83 million (0.09% of GDP). In 2017, expenditures amounting 7.3% of GDP were reviewed, identifying potential savings of EUR 277 million (4.7% of the envelope reviewed). Identified savings from spending reviews on healthcare and environment were implemented in GG budgets (Box 45). Findings from the 2016 evaluation on ICT spending, health care and transport were used in the 2017 budget preparations. However, almost a third of the measures identified were not implemented, or their implementation was postponed to 2018. Implementation was in particular a problem in state-owned enterprises (SOEs) and sectors, where the state is not the direct provider of services, such as healthcare, and education. In these cases, implementation could only be monitored at the end of the year in the closing accounts.

Box 45. Savings from the Healthcare spending review

Healthcare spending review has resulted most successful in term of realised savings. In 2017, the Ministry of Health achieved a fiscal saving of EUR 79.8 million, representing 45% of the set target (Figure below). The most significant saving was made in overconsumption of medicines (EUR 22.2 million), external referencing of the special medical supplies to EU average (EUR 13.2 million), and the procurement of hospital medical equipment (EUR 15.6 million). For upcoming years, key challenges include to continue to meet defined fiscal savings, ensure the full functionality of DRG, and the functioning of eHealth.

In contrast, the environmental spending review identified potential savings of EUR 111 million. (0.18% GDP) by 2020¹. Identified measures included improving the efficiency of the Slovak Water Management Company operation, higher fees for waste disposal motivating a greater degree of waste recycling, implementation of nature protection funding, improved subsidy management, and revocation of optional exemptions in the area of excise taxes (coal, electricity, gas). The Office of the Deputy Prime Minister for Investments and Informatisation aimed to implement potential savings of between 5-7% of IT expenditures for 2017, of which 54% was fully or partially implemented.

Targeted implemented savings from spending reviews into budget



Note: ¹ As included in the GG budget. The Spending Review identified full potential savings up to 149 million.

Source: General Government Budget 2018-2020, Ministry of Finance, Ministry of Health

The spending reviews programme has initiated a change of thinking about performance of public spending. Value for Money units have been developed in several of the reviewed line ministries and more priority is being given to develop a methodological toolbox and internal analytical capacity to do value for money analysis at the finance and line ministries (OECD, 2017^[4]). In particular, because of the spending review

exercise, the Ministry of Transport has made significant progress in co-operating with the Ministry of Finance to move towards systematic evaluation of investment projects and publishing data to the public. Similarly, a key result of the spending review of the Office of the DPM highlighted the need for coherent rules for the assessment of investment projects irrespective of the source of financing (state and EU funds). To secure persistent focus on efficiency of public spending, the Ministry of Finance should insure that spending reviews' results continue to be regularly and systematically integrated into budgetary decision-making processes.

An option to consider would be to analyse results of spending reviews at the outset of the formulation of the fiscal strategy (discussed in Chapter 3) and to use them for setting the medium term resource and capital budgets for each chapter, as is done for example in the United Kingdom (Box 46). This would help developing the medium term planning and performance. It would involve however that spending reviews be comprehensive, rather than selective or rolling. A more detailed analysis of Slovakia's spending review process, however, goes beyond the remit of this targeted assessment. Slovakia may consider including these aspects in a full or targeted budget review.

Box 46. United Kingdom: Spending Reviews and Medium-Term Planning

Multi-year spending reviews were introduced in 1998. They usually set 3 to 4 year resource and capital discretionary budgets for each ministry, with the final year of each spending review period becoming the first year of the subsequent one – deliberately designed to deal with the rising uncertainty associated with medium-term targets.

Spending reviews are a principally top-down process designed to force allocative trade-offs between competing priorities. A fixed spending envelope (the so-called 'DEL envelope') is set prior to the conclusion of the exercise. It reflects a government's medium term fiscal policy because the DEL envelope is set by reference to the fiscal targets, tax receipts and non-discretionary spending (so-called AME spending), as forecast by the OBR. DEL spending is therefore sometimes described as 'the spending residual' – although reforms to taxation and to social security spending can be used to create more or less spending headroom given the amount of DEL is linked to tax and AME spending forecasts.

DEL spending is further divided into non-fungible capital (CDEL) and resource (RDEL) envelopes, thereby allowing a government to make a top-down strategic choice between levels of day to day and investment spending on all departmental spending, including healthcare.

Four to six months before the outcome is announced, individual spending ministries are required to submit capital and resource-spending proposals based on several scenarios set by the finance ministry (HM Treasury) – measured against a baseline agreed between each ministry and the Treasury, itself usually the subject of a negotiation. Each bid is scrutinised – sometimes by a ministerial committee led by the Budget Minister, the Chief Secretary to the Treasury – before final decisions are made by the finance minister (Chancellor of the Exchequer) in close collaboration with the head of the government (Prime Minister). Since 2010, infrastructure-spending bids have been considered from a zero base against each other as a means of seeking to identify those projects with the highest returns within a set CDEL envelope.

The policy analysis is often supplemented by parallel strategic reviews of major spending areas, or to try to identify areas of reform – such as the Strategic Defence & Security Reviews that often provide the policy context to spending on external security spending decisions.

Multi-year budgets are then presented to the UK Parliament, although the Parliament votes on each year's budgets through the Supply Estimate process.

Source: (OECD, 2019 (forthcoming)^[39])

However, according to some line ministries, spending reviews may have contributed to the declining focus on monitoring and evaluation of performance information within the Slovak performance budgeting system. Spending reviews should be used in conjunction with performance budgeting to review the justification for spending and to identify budgetary savings that can be redirected to support priority goals. A possible way to support this would be the adoption of a strategy for evidence-based decision-making. For example, the so-called “ecology of instruments” approach (Box 47) is based on the mutually reinforcing effects that the implementation of regulatory tools and evaluative instruments, such as spending reviews can trigger.

Box 47. “Ecology of instruments”: co-ordinated action in evidence-based policy-making

Empirical research and academic literature has tended to focus on individual administrative control instruments and regulatory tools, ranging from laws on administrative procedures, to issues of transparency and consultation, and to cost-benefit analysis and RIA. A theme of this research is that while today there is relatively well-defined knowledge of individual instruments, this has come at the expense of the ‘bigger picture’ of policy-making.

Research by Damonte, Dunlop and Radaelli (2014^[18]; 2014^[19]; 2016^[20]) opens an innovative avenue to design and manage regulatory reform. These scholars propose to consider “ecologies of instruments” instead of the political economy of introducing, mainstreaming and running individual regulatory tools. The general implication of the ecology theory is that, from the point of view of performance and effectiveness, the sophistication and effectiveness of individual instruments matter less than the overall mix of those instruments and their collective impact on interested parties (businesses, citizens, end-users). In other words, a single instrument must fit well within the broader “ecology” of other instruments.

Applying this concept to policy-making more generally, the “ecological landscape” is broader still, and needs to take account of the tools of budget-related policy-making: *ex ante* evaluation, resourcing, performance budgeting, *ex post* reporting and parliamentary accountability. The practical expression of this approach would be the development of a common, foundational methodology for evaluation and policy-making that can facilitate a full economic and social balance sheet for the use of policy makers and stakeholders.

Source: (OECD/Korea Development Institute, 2017^[16])

Recommendations

Improve the alignment of performance information to strategic goals

- 13. Ensure that performance information is collected and can be relevant and useful for the budget formulation, parliamentary debates and oversight.** Slovakia may facilitate oversight and accountability by (re-) introducing performance information in the budget documentation to inform and provide context for the financial allocations. Doing so, Slovakia should consider improving the quality of performance information by introducing selected, concise and internationally comparable objectives and indicators. A smaller number of high-level outcome targets that are clearly linked to government priorities can drive policy discussion within government and in parliament. Greater selectivity in presenting performance information can highlight the performance objectives to which the government is holding itself to account, for example through the development of dashboards to provide concise information on budget implementation, and based on internationally comparable benchmarks that align to the EU 2020 and/or the UN Sustainable Development Goals.

14. **Encourage parliamentary engagement to build demand for performance information.** This requires a participative approach already in the design phase of outcome objectives and indicators; and a strengthened discussion on performance information and evaluation during the budget formulation and approval phase, for example by a dedicated parliamentary committee to report on performance and/or dedicated time to the discussion of performance objectives, indicators and their evaluation during the budget approval sessions in autumn.

Strengthen the evaluation function of the government to demonstrate progress toward strategic objectives

15. **Standardise spending reviews as a tool for performance evaluation and eventually inform medium-term expenditure ceilings.** To maintain a consistent focus on efficiency of public spending, the Ministry of Finance should ensure to regularly and systematically integrate spending review results into budgetary decision-making processes. An option to explore in the future would be to analyse timely results of comprehensive spending reviews for setting the medium-term expenditure ceilings for each chapter, as is done for example in the United Kingdom (Box 46).
16. Establish a co-ordinated system and the necessary capacities for monitoring, evaluation and quality control by:
- A centralised competence for co-ordinating cross-cutting objectives, including quality-control on performance information associated with broader policy priorities, indicator development. Such entity would furthermore be a key player with respect to performance monitoring and evaluation.
 - Considering focused assessments of the budget's impact on particular Government priorities such as gender equality or the environment.
 - Encouraging Supreme Audit Office (SAO) to conduct systematic evaluations of performance information, including an assessment of the coherence of performance-objectives and outcomes within the national strategic plans, the Agenda 2030 and the stability programme; and strengthening the role of the SAO and the CBR by requiring a formal discussion and response by government of the analysis results in parliament.

Notes

1. Slovakia and Slovak Republic are used interchangeably in this report.
2. The indicator does not directly impact fiscal policy or the formulation of fiscal targets.
3. The Starting Points for Budget Preparation included also breakdown of aggregate budget ceilings by Chapter, which however was discontinued when the document was merged with the Stability Programme.
4. All programmes, sub-programmes, projects/items and objectives are binding indicators
5. www.nku.gov.sk/web/sao/about-us
6. <https://goo.gl/eHR45w>
7. Guidance on performance evaluation
www.finance.gov.sk/Components/CategoryDocuments/s_LoadDocument.aspx?categoryId=7282&documentId=3655
8. When created, the IU was based under the Deputy Prime Minister's Office for Investments and Informatisation.

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