

Recent developments in the work of the Budget Office

By

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

JEL codes: H30, H50, H60

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

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

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

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

1.1. A behavioural approach

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

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

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

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

1.2. Focus on the Budget Office

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

This narrow definition is chosen because the distribution of tasks with respect to fiscal policy in general¹ is quite diverse in different countries. These tasks can be distinguished in different ways. For the purpose of this paper, a classification based on the separation between institutions and behaviour is proposed. On this basis the following list of tasks can be drawn up:

1. Institutional policy with respect to procedures, including, among other things:
 - fiscal rules and rules about the expenditure framework,
 - the budget classification,
 - the budget calendar,
 - rules about compilation and updating of budget estimates,
 - rules about investment selection and execution of investments,
 - rules about revision of the budget in supplementary budgets.
 - rules about budget execution
 - rules about accounting and financial reporting, including rules about the accounting base of budget authorisation (cash/commitments, accruals, modified accruals),
 - rules about evaluation (*ex post*).

2. Institutional policy with respect to organisation, including among other things:
 - specification of sectors that are subjected to ceilings,
 - rules about arm's length and independent agencies,
 - specification of budget holders (officials authorised to enter into commitments and to order payments),
 - rules about independent economic forecasting institutions.

3. Tax policy, including among other things, decision making about:
 - general fund taxation (including regulatory taxation),
 - earmarked taxation (including social security premiums).

4. Expenditure policy, including among other things, decision-making about:
 - targets for total expenditures, revenues, budget balance, public debt,
 - sectoral expenditure ceilings,
 - expenditure line items² and medium term estimates, including expenditures from extra-budgetary funds, such as social insurance funds,
 - guarantees, tax expenditures, non-tax revenues.

Responsibilities for the institutional policies listed under numbers 1 and 2 above are often assigned to (separate branches of) the Budget Office, but sometimes not³. Responsibility for tax policy listed under number 3 is usually assigned to a separate fiscal division of the

Ministry of Finance and for social insurance premiums to the Ministry of Social Affairs or equivalent⁴. Only the expenditure policies listed under number 4 are typically a responsibility of the Budget Office in narrow sense. It should be emphasised however, that in most governments, there are extensive co-ordination mechanisms which ensure that relevant units outside the Budget Office and outside the Ministry where the Budget Office is located, have a say in the most important decisions, such as medium-term targets for total expenditures; revenues; the budget balance and the public debt; and about the sectoral medium-term expenditure ceilings.

This said, this paper focuses on the practices and activities of the Budget Office in the narrow sense while taking account of the fact that communication and co-ordination with other relevant units is an essential component of its task performance, regardless of whether the latter units are organised inside or outside the same office.

1.3. Selection of the case studies and topics to be addressed

This paper focuses on three countries: the United Kingdom (the UK hereafter), the Netherlands and Slovenia. These countries have been chosen for both substantive and pragmatic reasons.

The UK and the Netherlands belong, together with Canada, Australia, New Zealand, the Scandinavian countries and the US, to the group of countries that have been at the forefront of institutional reform since the Second World War. In particular, these countries have during the last 50 years fundamentally reformed their budget process in conjunction with other features of public administration, on the basis of subsequent waves of new ideas that have been denoted as “Receding Government” and “New Public Management” (OECD 2016).

Furthermore, the UK and the Netherlands belong to the countries that have extensively devolved financial management to the line ministries. This devolution does not only apply to the financial administration of the budget holders in the line ministry⁵, but also to the control of all financial operations of the line ministry. This far-reaching form of devolution has been described in a recent paper as the “financial control model” of the finance function in line ministries (Kraan, 2016). Apparently, this similarity is possible in spite of quite different constitutional arrangements, which imply that the UK is usually governed by a strong majority party and the Netherlands by a coalition of minority parties.

Slovenia is a young country that gained its independence in 1991 after a short war against the Yugoslavian army. It has developed its public sector institutions almost from scratch, including its constitution, major organic laws and working procedures of the major organs of State. The process has been successful and was crowned by the accession of Slovenia to the European Union in 2004 (Kraan and Wehner 2006). The euro was subsequently adopted in 2007.

Slovenia is an example of a Central European country that features a traditional budget process. In this respect it is comparable to countries such as Austria, Hungary, Germany, Czech Republic and Slovakia. A notable feature of these countries is that in spite of otherwise traditional procedures they have been able to make the move from incrementalism towards top-down budgeting, ensuring that predetermined aggregate targets for expenditures, revenues, budget balance and public debt have roughly been achieved. On the other hand, the Receding Government and New Public Management reforms that have thoroughly affected the Anglo-Saxon countries, the Netherlands and the Scandinavian countries, have affected these countries to a lesser extent⁶.

Furthermore, in Slovenia and the other mentioned countries there has never been a tradition of extensive financial devolution to the line ministries. According to the paper on the finance function in line ministries (Kraan 2017) mentioned earlier, the division of tasks between the Budget Office and the line ministries in Slovenia can be represented by the “conventional model”. This implies that the finance divisions of line ministries take care of the financial administration of the ministry, but have no, or only limited tasks in the maintenance of aggregate fiscal discipline (budget control), allocation of resources (fiscal co-ordination) and supervision of the effectiveness and efficiency of sectoral policies (operational control) within the ministry.

The UK, the Netherlands and Slovenia thus constitute a sample of three countries that differ in two respects. The UK and the Netherlands have reformed their budget processes in accordance with successive reform waves over the past half century and moreover, stand in a long tradition of devolution of financial management authority to the line ministries. Slovenia on the other hand was less affected by these reform waves and stands in a tradition of strong centralisation of financial management authority. Furthermore, the two reform minded countries feature two different types of constitutional arrangement, thus increasing the likelihood that something can be learned from our findings for countries of both constitutional types.

Apart from these substantive considerations, the selection of the UK, the Netherlands and Slovenia for the case studies in this paper was motivated by pragmatic conditions. First, the authors were already familiar with one or more of these countries, either because they had worked in the Ministry of Finance or because they had been engaged in previous work on financial management in one or more of these countries. This made it easier to collect the relevant information. Second, looking at the same three countries that were studied in the paper mentioned above Kraan 2017 is useful. This made it possible to use information that was already collected for the previous paper. Moreover, the two papers together now provide a more complete picture of the behavioural interaction between the Budget Office and the line ministries in each of these countries.

The information on which the paper is based, comes from various sources. The authors looked at existing literature and data collection on the budget process in these countries, including reports from international organisations such as the OECD and the IMF. In addition interviews with two or three budget analysts were conducted in each country. For the purpose of this paper a budget analyst is defined as an official of the Budget Office who is responsible for advice to the head of the Budget Office and the minister about a certain domain of expenditures and non-tax revenues of a line ministry. The head and members of the management team of the Budget Office are not budget analysts in this sense.

For the purpose of the interviews the Directors of the Budget Office were approached for their co-operation. Interviews were conducted with middle ranking officials, who had a good overview on the work of the Budget Office as a whole, but were close to the actual work of the budget analyst or still did such work themselves. In most cases the budget analysts were selected by the Director of the Budget Office. As it turned out, almost all interviewees were head or deputy head of a spending division/team, responsible for the supervision of one or more line ministries.

The questionnaire used in the interviews focused on key tasks of the budget analyst, managing the relationship with the line ministry and qualifications for the work of the budget analyst in conjunction with human resources aspects⁷. Sometimes the answers led to discussions on related aspects of a question that provided additional relevant information.

The paper is structured as follows. Sections 2 and 3 describe the context of the work of the budget analyst in each country. Section 2 looks at the core outcomes of budget policy over the last decade, including the impact of the global financial crisis and the policy response to the crisis. Section 3 looks at the institutions of the budget process in each country, divided over the organisational setting and the procedural setting. Section 4 is dedicated to the work of the budget analyst and constitutes the core of this paper. It looks at the key tasks of the budget analyst, the prevailing practices for managing the relationship with the line ministry and the required qualifications of a budget analyst and related human resource aspects. Section 5 summarises the findings of this paper and provides some ideas on the theoretical relevance of the findings.

2. Core fiscal outcomes over the last ten years

2.1. Impact of the global financial crisis

The global financial crisis has had a profound impact on all three countries in the sample. The data in Table 1 on GDP and key fiscal parameters illustrates the impact of the crisis.

Table 1. GDP growth (year-on-year) and key fiscal parameters (percent GDP)

% GDP (GG)	2007	2008	2009	2010	2011	2012	2013	2014	2015
UK									
Growth Real GDP (y-o-y)	2.6	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2
Gross Expenditure	41.3	45.0	47.9	48.0	46.5	46.3	44.7	43.7	42.9
Fiscal balance	-2.9	-4.9	-10.2	-9.6	-7.6	-8.3	-5.7	-5.7	-4.3
Gross debt	51.3	63.4	77.0	89.1	103.3	107.0	102.8	113.3	112.6
Netherlands									
Growth Real GDP (y-o-y)	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.2	1.4	2.3
Gross Expenditure	42.5	43.6	48.2	48.2	47.0	47.1	46.3	46.2	45.1
Fiscal balance	0.2	0.2	-5.4	-5.0	-4.3	-3.9	-2.4	-2.3	-1.9
Gross debt	48.5	61.3	64.1	63.0	72.0	77.8	76.6	81.2	77.9
Slovenia									
Growth Real GDP (y-o-y)	6.9	3.3	-7.6	1.2	0.6	-2.7	-1.1	3.0	2.3
Gross Expenditure	42.2	43.9	48.2	49.3	50.0	48.6	60.3	50.1	48.1
Fiscal balance	-0.1	-1.4	-5.9	-5.6	-6.7	-4.1	-15.1	-5.4	-2.9
Gross debt	29.1	28.4	42.5	46.8	50.4	60.5	78.9	99.2	102.1

Sources: OECD Statistics (Real GDP: national accounts; Expenditures, Fiscal balance, Gross debt: Government at a Glance). All data apply to General Government Expenditure (including local government and social security funds). Gross Expenditures include expenditures funded from non-tax revenues.

The UK experienced a short but deep recession as a consequence of the financial crisis. Unemployment and inflation both rose after the crisis, although less than expected. In the UK the fiscal picture over the period 2007-17 is very much a tale of two halves before and after the financial crisis. The UK's fiscal position was affected by the financial crisis more than other G7 countries. In a very short period the UK fiscal deficit deteriorated, reaching

10.2% in 2009. Public debt increased rapidly. Despite the very negative headline fiscal position, the interest costs of UK public debt has remained low by historical standards, partly due to unprecedented low interest rates.

The Netherlands experienced a prolonged period of negative or low growth as a consequence of the crisis. Before the crisis the general picture of public finances was sound. The public debt in 2007 was 48.5% of GDP, the lowest since the 1970s. This resulted from a gradual decline starting from a peak of 78.5% of GDP in 1993. The fiscal balance worsened from a surplus of 0.2% GDP in 2008 to a deficit of 5.4% in 2009 as a consequence of the crisis. Public debt increased as a consequence of the deficits, the stagnating GDP growth and interventions in the banking sector to 81.2% of GDP in 2014. The Netherlands were subjected to the excessive deficit procedure of the EMU (Economic and Monetary Union of the EU) in 2009.

After a period of relatively rapid economic growth in the early 2000s, Slovenia's GDP contracted deeply in the wake of the financial crisis, which spilled into a bank and sovereign debt crisis in 2012-13 and widened the budget deficit briefly to over 15% of GDP. Ten-year sovereign bond yields rose to almost 7% between 2012 and 2014 before eventually falling back to below 2% in 2015. Public debt has risen from around 29.1% of GDP in 2007 to 97.1% in 2014. Slovenia was subjected to the excessive deficit procedure of the EMU in 2009.

2.2. Policy response to the global financial crisis

In the UK growth resumed in 2010, albeit at a slower pace than pre-crisis. Unemployment and inflation have fallen back again. The UK is now partway through a period of prolonged fiscal consolidation. The annual deficit has been progressively cut, although public debt continues to rise. There are political disagreements between the major political parties on the pace, method and the final end-point of fiscal consolidation. Overall, from a period of steady real-terms increases in spending up to 2008, the UK is now managing a budget that has steadily been decreasing in many areas. The picture has been complicated since June 2016 when the UK has announced its intention to leave the EU. There is significant uncertainty surrounding the UK's future economic relationship with the EU, and corresponding uncertainty as to how this will affect economic growth and ultimately the UK's fiscal position. Risks are widely assumed to be on the downside, at least in the short to medium term. In addition, common with many OECD countries, the UK faces a "slow burn" fiscal challenge relating to the costs of an ageing population. The costs of maintaining all current explicit and implicit public service and welfare guarantees to an ageing population imply consistent, significant and ultimately likely unsustainable increases in expenditures in the long term (Office of Budget Responsibility 2017).

In the Netherlands GDP growth picked up again in 2014, but thus far at a lower level than was usual in the 1990s and the first years of the new century. The Netherlands have followed a drastic consolidation policy. In subsequent years extensive savings packages were adopted⁸. This made it possible to reduce the deficit below the GDP threshold of 3% as from 2013 and to exit the excessive deficit procedure of the EMU. A package of tax relief was adopted in 2016 amounting to EUR 5 billion structurally. Table 1 shows that the deficit was gradually reduced after 2009 to 1.9% in 2015⁹. Furthermore the public debt started decreasing from 2014, mostly on the back of increasing GDP growth, attaining 77.9% of GDP in 2015¹⁰. The consolidation efforts were not only aimed at improving the budget balance but also at improving the long term sustainability balance¹¹. Two important measures were the alignment of old age pensions to life expectation and the reform of the

housing market (including limits to the fiscal mortgage allowance). As a consequence, the long term sustainability balance has improved from a deficit of 4.5% in 2010 to a surplus of 0.7% in 2015.

Following the crisis, Slovenia has been following a strict consolidation policy that was heavily influenced by EU fiscal rules and Excessive Deficit procedures, but also largely endorsed by the IMF as a sign of credibility. The initial policy response was slow, as pensions and health spending proved difficult to reform. Fiscal consolidation only began in earnest around 2012 with the Public Finance Balancing Act under a new centre-right coalition (Verbic, Srakar, Majcen, Čok 2016). Consolidation was achieved by a mix of longer term measures (including a VAT increase, pension reform and debt management operations) and more temporary interventions (one-off freeze of the wage bill, pension and other social transfer indexation, as well as a squeeze on non-EU-financed public investment) (IMF 2017). As a consequence, the deficit was halved from around 6% of GDP in 2009 to below 3% of GDP in 2015. Economic growth resumed in 2014 and in 2015 the country exited the excessive deficit procedure of the EMU. However, longer term risks to the fiscal position remain. In particular, Slovenia faces one of the most serious aging problems in the EU. Barring pension and public health reform, the debt ratio has been forecast to reach 240% of GDP in 2060 (IMF 2017).

3. The institutional setting for the work of the Budget Office

3.1. The organisational setting

UK

In the UK the responsibility for spending oversight rest with Her Majesty's Treasury (HMT)¹². HMT is a unified “finance and economics” ministry. It co-ordinates all economic and financial policy of the central government. It has relative extensive formal and informal authority over public financial management. It is widely seen as a powerful institution. The Chancellor of the Exchequer (Minister of Finance) has a key position in the cabinet. Through its task of spending oversight, HMT has a direct relationship with all parts of government, giving it a genuinely holistic view of the government's position. The Chancellor is assisted by the Chief Secretary to the Treasury: a second HMT cabinet minister responsible for public spending. HMT staff are typically seen as the “brightest and best” in Whitehall (the administration of central government) with strong intellectual capability (Welham 2016, Allen 2014). As of March 2016, the “core” HMT institution (i.e. excluding the executive agencies under HMT control, such as the Royal Mint and the Debt Management Office) comprised of 1 297 FTEs (HM Treasury 2016).

At the civil service level HMT is led by the Permanent Secretary who chairs the Executive Management Board. The Board consists of directors of support service directorates (Finance Director, Director Corporate Services) and five Directors General, namely for: 1) Economic Affairs, 2) General Tax and Welfare, 3) Financial Services 4) Public Spending and Finance and 5) International Affairs and EU. In addition, the Director of Strategy, Planning and budget, who reports directly to the Permanent Secretary, participates in the Executive Management Board.

The staff of HMT is organised in “groups” (formerly directorates). Groups are led by a director and comprise a number of teams working on similar issues. The Director-General of Public Spending and Finance leads three groups, namely 1) Public Spending, 2) Public

Services and 3) Fiscal Strategy, Funding and Debt Management and Monitoring Fiscal Position.

A remarkable fact about the organisational setting of the budget process in the UK is that there is no “budget office” as such. Budget analysts in the sense of this paper are dispersed and work throughout a number of “spending teams”. There are around 20 spending teams. Each team is responsible for expenditures in one or more ministries. Currently there are 53 ministries, but many are (very) small and spending is highly concentrated in some 15 large ministries. The spending teams are divided over 5 of HMT’s groups. About half of them belong to the Public Services group and the Public Spending group under the Director-General of Public Spending and Finance, but others belong to other groups under other Directors General. For instance, the “Personal Tax, Welfare and Pensions” group contains the spending team that oversees the (significant) expenditures of the Department (ministry) of Welfare and Pensions and reports directly to the Director General of General Tax and Welfare.

Each spending team consists of 2-3 officials in charge of spending oversight of the ministry as a whole, including the “Spending Principal” whose main responsibility is spending oversight. Typically working alongside the Principal are a number of sector specialists. For example, in the education focused spending team there will be a Spending Principal, working alongside sector specialists looking at higher education, schools funding, and early years education. In the transport focused team, the Principal will work alongside the railways branch and the roads branch of the team.

Principals are mid-level officials. There is a Principal’s network that meets monthly and receives particular communications. Principals are supported by a junior official who deals with the “mechanics” of the estimates process (main estimates, supplementary estimates, formal financial reporting through ministerial accounts). The number of sector specialists working alongside the Principal is dependent on the size and complexity of the ministry’s expenditures. For large ministries there may be up to 10 HMT sector specialists in salary scales from entry-level graduate to mid-level. The sectoral specialists may carry out some function as “budget analyst” in the sense of this paper (for example reviewing and understanding the financial situation of their sector, understanding future cost drivers, etc.) and they will also represent HMT in discussions with the line ministry about strategic policies that are not directly related to expenditures. In total the number of officials working in spending teams amounts to 160 (being 20 spending teams of 8 officials on average, with some form of spending oversight in their responsibilities, although this can vary between teams quite substantially).

Apart from the spending teams, two other units play a crucial role within HMT’s oversight of public spending, namely the General Expenditure Policy (GEP) team and the Government Financial Reporting (GFR) team. Both are located in the Public Spending Group.

The GEP team (around 12 FTEs) is ultimately responsible for ensuring that HMT’s public spending policies are on track. It briefs the permanent secretary each month on the progress of public spending and holds the cross-government spending risk register. GEP must be consulted on and agree on all submissions to Cabinet with a public spending implication. GEP leads the monthly meeting of Principals.

The GFR team (around 26 FTEs) is responsible for government reporting and accounting policy. They have particular responsibility for co-ordinating and submitting to Parliament the Main and Supplementary Estimates (the UK Supply and Appropriation bills covering

Main and Supply Estimates). In practice, spending control in the UK operates two tracks: 1) the mechanics of pulling together estimates, supplementary estimates, overseeing publication of accounts, etc. This track is ran by GFR and GEP working with mid- and junior-level spending team staff (under the supervision of Principals); and 2) the policy aspects of spending supervision, where issues of political decisions, in-year spending control, anticipation and resolution of fiscal risks and senior-level relationships with ministries are managed. This track is ran by mid- to senior level Principals, sector specialists and GEP.

The organisational setting of public financial management has changed in the UK with the establishment of the Office of Budget Responsibility (OBR) in 2010. OBR is an independent economic forecasting institution responsible for generating independent economic and fiscal forecasts that are factored in the HMT-led budget process. A part of its staff came from HMT, where the forecasting task was located previously. Since the arrival of OBR, HMT relies on OBR forecasts for its budgetary planning tasks. OBR also performs cost-benefit analysis and economic scenario studies at the request of the government.

The Netherlands

The Ministry of Finance is led by two politicians: the Minister and the State Secretary. The State Secretary is responsible for tax policy and the tax service. The Minister is responsible for the budget, the financial markets and international financial relations.

At the civil service level, the ministry is led by a Secretary General and four Directors General. The Secretary General has overall responsibility for the ministry and is tasked in particular with the operational management of the ministry, including the supervision of support service directorates (Financial and Economic Affairs, Operational Management, Legal services, Government Audit Service, Domains; the latter two work for the government as a whole). In addition the Directorate of General Financial and Economic Policy reports directly to the Secretary General.

The four Directorates General are those of: 1) Treasury, 2) Budget, 3) Fiscal Affairs, and 4) the Tax Service. The first three Directorates General and the directorates under the Secretary General except the Domains employ around 1 400 FTE's in total and sit in the main building of the Ministry of Finance in The Hague. The Tax Service and the Domains employ 35 000 FTE's and are spread over the entire country.

The Directorate General of the Budget is divided in two directorates: Budget Affairs and the Inspectorate of Finance. Budget Affairs (55 FTE's) is responsible for the organisation and regulation of the budget process and advises the minister on general aspects of budgetary policy. Budget Affairs has five divisions, namely for 1) Budget Policy, 2) Budget Infrastructure and Administration, 3) Governance, Costing and Administration of European Means, 4) Government Accountancy Division, and 5) the Academy of Finance, Economy and Operational Management.

The Inspectorate of Finance (79 FTE's) advises the minister on the budgetary proposals of line ministries, maintains contact with the line ministries, serves as the "ears and eyes" of the Minister of Finance across the public sector and provides support to the Minister in all stages of the budget process. All budget analysts in the sense of this paper belong to the Inspectorate. The Inspectorate consists of 7 sections. Each section supervises one or more ministries (there are 11 ministries, including the Prime Minister's Office). The Inspectorate

has two staff bureau's: one for horizontal co-ordination (Bureau Policy Preparation) and one for strategic analysis (Bureau Strategic Analysis).

Each section of the Inspectorate consists of 5 to 10 officials. Each section has a head and deputy head that have overall responsibility for the financial supervision of the line ministry. The other section members are budget analysts with responsibility for a particular domain of sectoral policies. The agency heads are mid-level officials, the budget analysts are in salary scales from entry-level graduate to mid-level.

In the Netherlands economic forecasting for the government and the Ministry of Finance is a task of the independent Netherlands Bureau for Economic Policy Analysis (*Centraal Planbureau*).

Slovenia

At the political level the Ministry of Finance is led by a minister and four state secretaries, one of whom is in charge of the state budget and public accounting. The Minister is supported by a group of 14 staff known as the “cabinet”, including politically appointed staff (around 5). This unit provides administrative support in the area of public relations among other functions.¹³ Staff in this office also manage the co-ordination of briefing for weekly government sessions.

The ministry is led by a Secretary General and 6 Directors General on the civil service side. The Secretary General is the administrative head of the ministry and oversees support services such as human resources and legal services. The Directors General lead directorates for: 1) the Financial System, 2) the Treasury, 3) Tax and customs, 4) Public Property 5) Public Accountancy and 6) the Budget.

The Ministry of Finance employed 444 FTEs in June 2017. The Budget Directorate comprised 75 FTEs. It is divided into five departments namely for: 1) Budget Systems and Development (8 FTEs), 2) Management of EU Funds and Cohesion Policy (21 FTEs), 3) Local Communities (8 FTEs), 4) General Government Analysis and Economic Policies (7 FTEs) and 5) Budget (28 FTEs).

The Budget Department plays a lead role in the budget preparation and oversight and was the focus of the interviews. Other departments play supporting or more specialist roles in both budget preparation and execution. The Department for Budget Systems and Development, for example, plays a co-ordinating role through the management of the budget preparation and execution processes and systems, but also oversees capital projects, funded from the state budget. The Department for General Government Analysis and Co-ordination of Economic Policies focuses mainly on the development of the Stability Programme and the National Reform Programme, and is the custodian of the Budget Memorandum, fiscal framework and budget ceilings. It also conducts analyses of general government expenditure, which includes the large pensions and health funds that are not formally part of the state budget. The Department for Local Communities oversees intergovernmental fiscal transfers, supports the preparation of municipal budgets, and advises on local government borrowing.

In total the Budget Department is responsible for managing 15 ministries, including the office of the prime minister, and around 25 other “proposers of financial plans”. They include a total of around 170 “direct budget users” that are financed by the state budget. Direct budget users keep their own financial administration and report directly to the Ministry of Finance on commitments and payments, but only the proposers of financial

plans negotiate their budget directly with the Ministry of Finance (the other ones negotiate their budgets with proposers of financial plans, typically the responsible line ministries).

For organisation purposes the various direct budget users are grouped under 45 spending units supervised by Budget Co-ordinators. Each Budget Co-ordinator is responsible for the supervision of one or more spending units or a dedicated area of spending, such as the civil service payroll. The budget co-ordinators are budget analysts in the sense of this paper. Each of the 45 spending units are supervised by a primary co-ordinator and an alternate co-ordinator, who is often a primary co-ordinator for another spending unit (or set of spending units). There are also two small teams in charge of budget execution (3 employees) and relations with EU budget (2 employees).

To illustrate these arrangements, the Ministry of Agriculture is overseen by an experienced Budget Co-ordinator and a relatively new alternate. The primary Budget Co-ordinator is also responsible for monitoring 3 other proposers of financial plans, namely the Constitutional Court, the Court of Auditors and the Anti-corruption Commission, as well as providing broader advice on receipts from the EU Common Agriculture Policy.

For larger portfolios, the Budget Co-ordinator may take on fewer proposers of financial plans. The Budget Co-ordinator for the Ministry of Labour, for example, has responsibility for managing 2 proposers of financial plans: the Ministry of Labour (a large ministry with a budget equal to nearly 15% of the state budget) and the smaller Government Office for Equal Opportunities. Similarly, the primary Budget Co-ordinator for the Ministry of Infrastructure acts only as an alternate for 2 other proposers of financial plans.

Macroeconomic forecasts are provided by an independent forecasting bureau (the Institute of Macroeconomic Analysis and Development, IMAD). These forecasts are used by the Department for General Government Analysis and Co-ordination of Economic Policies to develop the fiscal framework, budget ceilings and Budget Memorandum, in consultation with the Budget Department. In 2017 the Parliament has also established a Fiscal Council, as required by the new Fiscal Rule Act. One of the tasks of the Fiscal Council is the assessment of the fiscal framework that is presented to Parliament.

3.2. The procedural setting

UK

In the UK there are two distinct processes of budget preparation. The first is an exercise that takes place with intervals of two, three or four years and that leads to a medium term expenditure framework. This is called the “spending review”. The second is the annual budget process that leads to the submission of estimates for parliamentary authorisation and the subsequent management of this expenditure.

Spending Review

The expenditure framework process was established in 1998 and is more important for final outcomes than the annual budget process, since it determines the expenditure ceilings for all ministries (53) for a number of years. Each ceiling is subdivided in five sub-ceilings, known as control totals, namely for current discretionary (current DEL¹⁴), capital discretionary (capital DEL), current mandatory/demand-led (current AME¹⁵), capital mandatory/demand-led (capital AME) and administrative spending (the amount of recurrent DEL that may be spent on running the ministry’s own operations)¹⁶. DEL control totals are set net of retained revenue¹⁷. This implies that the Spending Review process

largely determines the aggregate fiscal constraints and the allocation of resources for the medium term. Furthermore, the process also tries to establish the effectiveness and efficiency of certain areas of new and existing expenditure, and make decisions on expenditure priorities accordingly. It can thus be said that, as far as HMT is concerned, the key budget functions of aggregate control, allocation and operational control are largely concentrated in the periodic Spending Review exercise rather than in the annual budget process. This is not to say that these functions play no role anymore in the annual budget process, but during this stage delivery of the goals of aggregate control, allocative prioritisation and operational control of effectiveness and efficiency is fulfilled primarily through the internal budget process of the line ministries within the boundaries of the pre-existing expenditure framework (Kraan 2017).

Line ministries are expected to produce a wide range of analytical products for submission to HMT. In Spending Review 2010, ministries were asked to provide 70 pieces of information to HMT (National Audit Office, 2012). In Spending Review 2015 ministries were asked to describe 20% and 40% cuts to certain budgets, and explain the performance implications of such reductions in budget. In the same spending review, ministries were also asked to produce cost-benefit analysis (using common guidance) for all proposed capital expenditure, allowing HMT to have a cross-government view of the relative value for money of various investment projects. Similar cross-government analytical reviews were undertaken on public sector pay.

The ultimate goal for HMT during a spending review process is to ‘settle’ with the ministry. This involves agreeing a set of high-level budget aggregates (the control totals). The process also involves agreement on priority policy reforms that the analytical work to support the spending review has highlighted. The spending control totals and agreed policy reforms will be jointly agreed and recorded in a ‘settlement letter’¹⁸. The settlement letter spells out the formal agreement between the ministry and HMT on future budget allocations and policy reforms. Spending Principals noted that they all had the settlement letter close at hand in their engagement with the ministry and refer to it during the ‘in-year’ spending control period that follows the Spending Review.

Annual budget process

The work of the budget analyst related to the annual budget cycle partly consists of ongoing activities and partly of activities connected to the documents that HMT annually submits to Cabinet and Parliament.

Ongoing activities are largely based on data generated by the ICT system OSCAR. This system contains backward-looking information on actual expenditures and forward-looking forecasts of planned expenditure. It covers the current budget year, four years previously and forward years to the end of the spending review period (currently to 2018/19) and further for capital DEL (up to 2022). By the 8th of each month departments must update their OSCAR figures (backward looking if necessary¹⁹, but mainly their forecasts to the end of the year and beyond). The classification of OSCAR is more detailed than the level of control totals. Ministries can decide themselves how much detail they want to give, but HMT may require data on certain segments or sub-segments²⁰. GEP set the control totals on OSCAR in line with medium-term budgets agreed at the Spending Review.

AME forecasts are now provided by OBR (having been previously produced by HMT itself). At the spending review, OBR’s AME forecasts are incorporated into the relevant ministerial control totals. OBR update their AME forecasts twice a year (and HMT can formally request they provide more regular updates if necessary). Revised AME forecasts

for the latter half of the financial year are included in the Supplementary Estimates as needed. In practice, this means that DEL totals become the ‘residual’ between 1) HMT’s goal for total expenditure and 2) OBR’s estimates of AME expenditure. OBR provide their ‘central estimate’ for AME expenditure and HMT uses this as the AME control total. In practice, AME spending frequently comes in under this central estimate, so there is an ‘informal’ buffer on spending built into the AME figures.

HMT does consider AME and DEL differently. DEL totals, in the view of HMT, are fixed and there is little reason why they should be breached. There exists a tiny “reserve” in the budget for unexpected instances of overspending on DEL control totals. Ministries must formally apply to the Chief Secretary to the Treasury for use of the reserve, and if a claim is approved, then the supplementary estimates will adjust the ministry’s control totals upwards to reflect the approved reserve claim. However, applications to the reserve are relatively infrequent. One respondent added that there is no such thing as a ‘DEL overspend’, there is only ‘insufficient spending prioritisation’ within a ministry, given the more discretionary nature of DEL spending. HMT firmly resists increasing DEL totals through reserve claims and, unless strong evidence to the contrary can be produced, tends to see such applications as evidence of spending control failure. AME is different given its unpredictable and demand-led nature. If AME spending is running ahead of forecast HMT is more lenient: the presumption or first choice response of HMT is to reduce the relevant ministry’s DEL accordingly. However, this is done on a case by case basis as some drivers of AME spending cannot reasonably be considered within the ministry’s control. In the latter case, HMT may ‘rebalance’ expenditure from AME underspends elsewhere in government and protect a ministry’s DEL totals. Decisions on whether to do this would also depend on the reason for AME overspends-whether it was foreseeable and preventable, or an unexpected change. This provides incentives for ministries to actively and carefully manage AME spending where they can. DEL and AME control totals are also treated differently in terms of savings. Any in-year ‘underspends’ in DEL are automatically recycled by the ministry in that they can use the savings they make to fund other DEL priorities automatically without needing to ask HMT’s permission. Any AME underspend (i.e. the actual spending outturn runs below the OBR forecast) is ‘taken back’ immediately by HMT and there is no presumption that AME savings can be passed on to the relevant ministry as a corresponding DEL increases.

The annual budget cycle has been changed in recent years. It is currently structured around the budget documents that go from HMT via the Cabinet to Parliament. The fiscal year in the UK runs from 1 April to 31 March. By voting to approve the Estimates, Parliament authorises ministerial expenditure within the five control totals. This means that Parliament exercises little authority over detailed levels of expenditure, such as economic groups (investments, subsidies, grants to local government, etc.) or programme groups (separate policy instruments such as transport subsidies or welfare benefits)²¹.

Table 2 summarises the annual budget cycle on the basis of the main budgetary documents

Table 2. Budget Calendar in the UK (fiscal year 1 April to 31 March)

Date	Year	Document	To	Based on macro-economic update
Budget preparation				
Spring	t-1	Spring Statement ²²	Parliament	
Autumn	t-1	Budget ²³	Parliament	X
Autumn	t-1	Financial bill ²⁴	Parliament	
April – July	t	Estimates (Appropriation) Bill published (April); subject to Parliamentary scrutiny (May/June) and formally introduced and passed (July)	Parliament	
Budget execution				
Feb-March	t	Supplementary Estimates (Appropriation) Bill published (Feb); and formally introduced and passed (March).	Parliament	X
Financial reporting				
June	t+1	Departmental Accounts ²⁵	Parliament	

The Netherlands

In the Netherlands, like in the UK, there are two distinct budget processes of budget preparation. The first takes place at the start of the four-year cabinet period and leads to the establishment of the expenditure framework; the second is the annual budget cycle. Like in the UK, the first is the most important process in terms of aggregate fiscal control, allocation and operational control.

The expenditure framework

At the start of a new cabinet period a fixed ceiling is agreed for net expenditure (gross expenditure minus non-tax revenue) for each of the four years of the cabinet period. The ceilings are based on a medium term GDP and revenue forecast of the Netherlands Bureau for Economic Policy Analysis. The ceiling is fixed in real terms, but takes into account the expected wage and price developments in the public sector (the nominal total is translated back to a real total by the GDP deflator). The fixed expenditure framework allows for medium term predictability on the level of expenditures, regardless of GDP development. This provides for administrative tranquility and makes it possible to achieve automatic stabilisation via the revenue side of the budget.

The basic principle of the framework is that all expenditures and non-tax revenues that are relevant for the fiscal balance are included in the ceilings (non-tax revenues as negative items). This implies that compliance with the framework leads to control of the fiscal balance, which is important for the control of the public debt and also for compliance with the provisions of the Growth and Stability Pact of the EU. Over the period from 2001 to 2017, the framework included 91% on average of the total net expenditures of the central government. Large items that are currently not included are the revenues from gas extraction (non-tax revenues) and the interest expenditures.

The total ceiling is divided over three sectors: social security, public health and budget in narrow sense. Budget in narrow sense is divided over all (11) ministries. As a consequence every minister has a fixed budget over the entire cabinet period. The maintenance of the framework is based on the principle that every minister must see to it that her/his ceiling is complied with in every year of the cabinet period. For this purpose the minister can reallocate resources between line items both in the budget year and in future years, if and only if all reallocations add up to zero in every year. There are some 10-20 line items in

each ministerial budget, including at least one for administrative costs (intermediate consumption and compensation of employees for the ministerial administration). Most line items concern programmes or separate policy instruments of a programme.²⁶

The expenditure framework is complemented by a tax revenue framework. The principle of the revenue framework is that only budgetary consequences of tax policy changes (tariff or base adjustments) have to be compensated by other tax revenue measures. Fluctuations as a consequence of other developments (endogenous changes) are not compensated and flow into the fiscal balance. This leads to automatic stabilisation- in good times, tax revenues increase and in bad times they decrease. The revenue framework is fixed at the time of the Cabinet formation. The Netherlands Bureau for Economic Policy Analysis calculates the development of tax revenue on the basis of the coalition programme, taking into account both policy changes and endogenous developments. Once the framework is fixed, new tax policy changes, not foreseen in the coalition programme have to be compensated. Shifts between years are possible- the tax framework must close over the entire Cabinet period.

The framework process starts more than a year before parliamentary elections. Actions that take place in the running up to the elections are:

- Advice of the Study Group Budget Policy about adjustments of the expenditure and revenue framework and about the development of the fiscal balance in the upcoming Cabinet period²⁷.
- The Netherlands Bureau for Economic Policy Analysis publishes a medium term forecast for the upcoming Cabinet period, including tax revenues and price and wage developments.
- Political parties may submit their policy platforms to the Netherlands Bureau for Economic Policy Analysis, which calculates their macroeconomic impact and their impact on the budget (both expenditures and revenues). Subsequently, an iterative process ensues in which the parties can adjust their platforms if they are not content with the outcomes and have the adjusted platform recalculated. When all platforms are definitive the Bureau publishes the final results in a public document that is often used during the electoral campaign.

The annual budget cycle

Like in the UK, the work of the budget analyst mainly consists of ongoing activities and activities related to the documents that the Ministry of Finance sends to Cabinet and Parliament.

IBOS is the ICT system for budget preparation in the Netherlands. It contains the estimates at the line item level for all expenditures in the budget for six years (current year, upcoming budget year and four out-years). The estimates have policy status not only for the current and upcoming budget year but also for the out-years (the word “estimate” is somewhat misleading in this respect). They represent hard agreements on budget policy between the Ministry of Finance and the line ministries.

IBOS is updated 6 times per year. For that purpose the 11 line ministries have to submit all changes in the line items of their budget for each of the 6 years included in the system and the relevant sections of the Inspectorate have to approve all changes on the basis of the budget rules²⁸. The most important budget rules are those that require compensation of all increases, regardless the causes of the increase, and that prohibit that an autonomous

increase (based on a new policy) is compensated by a windfall (not based on a new policy). For this purpose all changes in the system have to be qualified as autonomous or endogenous. The line ministry fills in the nature of the change, and the Inspectorate has to approve the qualification. The budget rules imply that new expenditure measures can only be compensated by new savings measures and that windfalls can only be used to compensate setbacks (they cannot be used to pay for new policies). Moreover the compensation has to proceed parallel in time with the expenditure increases: structural expenditure increases cannot be compensated with temporary savings measures. However, the Ministry of Finance can allow intertemporal compensation (compensation in a later or earlier year) in exceptional circumstances if it can broker temporary inter-ministerial compensation in the year(s) when no compensation is offered. Compensation within the ministerial ceiling is called “specific compensation”.

If a minister feels that they cannot offer specific compensation, they can ask the Ministry of Finance for inter-ministerial compensation or “general compensation”. This may happen in case of a new major policy initiative that has not been foreseen during the Cabinet formation. Examples are the large reallocation in favour of the Ministry of Security and Justice that took place in 2016 as a consequence of the perceived security risks flowing from terrorist threats and the reallocation in favour of the Ministry of Development Assistance in 2015 in order to handle the increased inflow of refugees. In these cases the Minister of Finance has to broker the inter-ministerial reallocation packages. The Inspectorate plays a crucial role in the composition of these packages by proposing the savings measures that are feasible in the ministries that have to provide the compensation.

In the Netherlands, the budget year coincides with the calendar year. Apart from the ongoing activities related to IBOS, the work of the budget analyst is conditional to the required input to the documents that the Ministry of Finance sends to the Cabinet and the Parliament. The budget calendar is shown in the Table 3.

Table 3. Budget calendar in the Netherlands

Date	Year	Document	To	Based on macro-economic update
Budget preparation				
April	t-1	Framework Letter	Cabinet	X
July	t-1	July Letter (expenditure totals)	Cabinet	X
August	t-1	August Letter (revenue side of the budget)	Cabinet	X
September	t-1	Budget Memorandum and Budget Law	Parliament	
Budget execution				
June	t	Spring Memorandum/ Supplementary Budget Law	Parliament	(X) ¹
October	t	Autumn Memorandum/Supplementary Budget Law	Parliament	(X) ¹
Financial reporting				
May	t+1	Financial Report (accounts) and Final Budget Law	Parliament	

Note: ¹There are three macro-economic updates that are used in the letters of the Ministry of Finance (Central Economic Plan in the Framework Letter, Queens Macroeconomic Explorations in the July letter, and Macroeconomic Explorations in the August letter). The same updates are also reflected in the documents on budget execution (Central Economic Plan in the Spring Memorandum, Macroeconomic Explorations in the Autumn Memorandum)

Slovenia

The country runs a unique budget system. Each year a budget is approved covering two years (t and t+1) and a longer-term development plan (t until t+3). This practice was introduced in the late 1990s to provide clearer authorisation for spending when coalitions were fragile or took time to form after elections. In theory the main focus of the budget discussions should be on year t+1 (Kamnar 2013). In practice however, revisions to the budget are common and attention during budget negotiations usually focuses on adjustments to the allocations for year t (Kraan and Wehner 2006 2005)²⁹. There have also been deviations from this practice in election years, when the t+1 budget is not prepared and the previous years' estimates are not adjusted (Kamnar 2013).

The State Budget is divided into three parts: 1) a general part, showing revenue and expenditure aggregates by economic classification, 2) a special part showing expenditures by administrative and programme classification, and 3) a plan of development projects and activities together with the sources of financing. Historically, the special part has also included information on economic line items (beneath the sub-programme level) but this was dropped with the move to programme budgeting. As a result, the total number of line items in the budget presented to Parliament has fallen from around 8 500 to below 500 (OECD 2014).

In Slovenia budget preparation runs from January to September and is broadly divided in two phases³⁰. The first phase runs from January to June and sets the broad strategy for the budget including medium term fiscal planning. In this period Parliament approves the fiscal framework for budget preparation and the Government decides on initial ceilings and policies for inclusion in the Budget Memorandum³¹. In the second phase line ministries develop detailed budget estimates and the draft budget and Budget Memorandum is submitted to the Parliament (no later than 1 October). This period is characterised by a series of negotiations between the proposers of financial plans and the Ministry of Finance.

The first phase of budget preparation

In this phase there are two major sessions of the government dedicated to the budget. The first budget session focuses on the fiscal framework and the Budget Memorandum, the second on the ceilings for the upcoming budget.

In recent years the first phase of budget preparation has changed under the influence of the European Union, arguably more so than in Western European countries³². EU standards have been codified in the Fiscal Rule Act, adopted in 2015. This act integrates more firmly than previously, the preparation of the National Reform Programme for the European Union into the budget process. The Act also introduced the new requirement that the fiscal framework must be approved by the National Assembly prior to the submission of the Stability Programme to the European Commission at the end of April.

Under this new process, the Slovenian Parliament approves a Decree on the Fiscal Framework proposed by the Government. This Decree sets limits for a period of four years on the fiscal balance and gross nominal expenditures for general government, and sub-limits for central government, local government and health and pension funds at the start of the annual budget process. These limits must be consistent with the Fiscal Rules Act and are used as a basis for the fiscal strategy in the Stability Programme and draft budget.

The Government discussion on the Decree on the Fiscal Framework takes place between March and April, concluding with the First Government Session on the Budget. In the Ministry of Finance, the Department for General Government Analysis and Co-ordination

of Economic Policies prepares the limits for the Decree on the Fiscal Framework. According to Fiscal Rule Act the Cabinet has to adopt and transmit the fiscal framework to the National Assembly and the Fiscal Council no later than 20 days before the deadline to submit the Stability Programme to the European Commission (deadline is 30th April). These ceilings are more ‘binding’ than used to be the case before the adoption of the Fiscal Rules Act, and officials in the Ministry of Finance believe that the EU regulations have reinforced the hand of the MOF by fixing the ‘big numbers’ ahead of the negotiations with line ministries.³³ However, the limits for the years after the upcoming budget year (t+1 to t+3) can be revised in the next year.

Once the fiscal framework is approved, the Government usually holds several “second” budgetary sessions in order to set ceilings for each proposer of a financial plan in the central government. For that purpose the Ministry of Finance starts an internal operation to break down the aggregate expenditure limits for the upcoming budget (years t and t+1) in “ceilings” for proposers of financial plans. This operation is described by respondents as a process of developing “spontaneous” and “target” budget scenarios. Spontaneous scenarios estimate the trajectory of ongoing spending trends. They are developed from the bottom-up starting at the line item level, by rolling forward the past year’s expenditures and incorporate any known changes in legislation along with the macroeconomic indicators provided by IMAD. This is then matched with the top-down limits of the fiscal framework. In effect this works by giving first priority to statutory payments (wages, interest, pensions, etc.) and applying general ‘assumptions’ to discretionary spending in order to fit the ceilings into the fiscal framework.

There is no systematic exploration of tax alternatives and spending or saving options prior to the Government decision on the ceilings. Recent attempts to introduce spending reviews with support from the IMF (see Olden, Harris, Sayegh, Last, Uregian 2015) have not yielded much political traction. Instead, the Ministry of Finance relies on the knowledge of its officials to propose savings options as the need or opportunity arises. Initial negotiations with budget users are also held to support this “translation” from top-down expenditure limits into annual budget ceilings, policies and programmes.

From a more political perspective, the main policy priorities are generally known early in the budget cycle. Alongside other policy frameworks (such as Strategy of Development in Slovenia and the Programme of State Development Priorities and Investments) political priorities are defined in the Coalition Agreement. Typically, the Minister of Finance will be aware of the top three or four priorities of the Coalition Agreement and will ensure these are reflected in the budget ceilings. To ensure further support for priorities, cabinet documents may also be circulated more informally to relevant political groups such as party leaders. Managing budget negotiations at this stage is highly demanding and the dates of the second government budget sessions can vary from dates set in legislation.

The second phase of budget preparation

The adoption of budget ceilings for the proposers of financial plans by the Government (typically around June) begins the next phase of budget preparation: the development of detailed financial plans. During this period the proposers of financial plans prepare budgets (together with explanatory notes) for each direct budget user under their responsibility at the sub-programme and project level. The financial plans cover four years (t to t+3)³⁴. The deadline for this process is around 15 August though it varies from year to year (Kamnar 2013).

Though respondents believe the ceilings adopted by government in the second budget session are reasonably binding, they are not definitive and negotiations in August or September may change them, sometimes substantially. Line ministries will often submit requests for additional resources, particularly more powerful ministries. These vary depending on the politics of each coalition and public perceptions of certain policies and have often included the Ministry of Education, Ministry of Labour and even the Ministry of Finance itself. The Ministry of Finance aims at this phase to enforce the aggregate ceilings of the fiscal framework included in the Decree on the Fiscal Framework and request in excess of the ceilings from the proposers of financial plans will likely lead to (re-)negotiations with other proposers of financial plans.

Budget submissions are made through the budget preparation system (APPrA)³⁵. Though proposals can be in excess of the ceilings from proposers of financial plans during the draft stage, the system ensures the budget cannot be “closed” until spending is within the final limit set by the Ministry of Finance. This system links the Budget Co-ordinator and the finance division in the line ministry, which is the user of APPrA in the line ministry, reinforcing an already close institutional link.

Negotiations proceed first at the level of civil servants, then at the level of ministers and the government, leading to a final decision on allocations, usually in September. During the first stage, Budget Co-ordinators talk daily to their counterparts in line ministries (almost always at the premises of the Ministry of Finance) on the content of the financial plan. There would also be regular interactions between the finance division of the line ministry and budget staff responsible for managing investment projects in the Systems Development Department. Both sides may go back to their ministries to request instructions, but in the initial stage the interaction is mainly with the finance division of the ministry, because “if we don’t understand these [financial issues] we can’t go further.” In this process there is considerable autonomy of Budget Co-ordinators to resolve issues with their counterparts in the line ministry. Respondents suggested that the Ministry of Finance is often seen in these discussion as the “higher authority” and line ministries may yield because they feel they cannot win by holding on to their views. Nevertheless it is usually the case that a small number of issues remain unresolved.

Any remaining issues are discussed in formal bilateral meetings between the Ministry of Finance and a delegation of the line ministry. Ministerial meetings are generally reserved for ministries with “open budgets” and substantive issues that cannot be resolved at a technical level. For larger ministries or complex issues, there may be 3 or 4 of such meetings in the course of budget preparation. These meetings were described by some respondents as largely unproductive or inefficient. In many cases, solutions would ultimately be brokered by the Minister of Finance with the sector minister over the phone. In a few exceptional cases the minister might also refer the issue on to the prime minister, the government, or the coalition leaders.

The final draft budget is submitted to Parliament by the end of September. Parliamentary amendments that are accepted are returned to Parliament in the supplemented draft budget along with other amendments proposed by the government, responding to updated economic forecasts following the release of IMAD’s autumn forecast or other significant developments such as public sector wage settlements. The budget is finally enacted through Parliament’s approval of the Law on Budget Execution, usually in November. This law includes procedures for amending the budget during execution without supplementary budget laws, within designated limits (lower limits for budget users and higher limits for the Government).

There are currently also reserve options for reallocation without resort to supplementary laws. These are a general reserve and the dedicated reserves for exceptional events (currently two: for migration and natural disasters). Most claims would be against the general reserve. The government decides on the use of the reserves at the proposal of the Minister of Finance.

After the parliamentary adoption of the budget the Ministry of Finance is generally willing to accept changes, regardless of whether they require supplementary laws, as long as they can be financed through reallocation within the available budget of the line ministry. Savings in the investment budget in order to finance additional spending is one method of doing this. This has also been a solution for finding resources to fund unforeseen expenditures such as the higher increment awarded to public sector workers shortly before the budget was finalised in 2016. However, the government is reluctant to reduce wages, transfers and pensions as these are both statutory payments and politically important. Supplementary budgets and restrictions on commitments have also been used to realise savings during budget execution with the aim of meeting agreed or revised fiscal targets³⁶.

There is no specific timetable for supplementary budgets, but typically the Ministry of Finance will consider preparing a supplementary budget in the early summer (around July). This “rebalanced” budget will take into account changes in the macroeconomic projections from IMAD’s spring forecast and updated revenue outturns for the first few months of the year. Table 4 summarises the budget calendar.

Table 4. Budget calendar in Slovenia

Date	Year	Document	To	Based on macro-economic update
April	t-1	Draft Budget Memorandum and Fiscal Framework	Government (first session)	X
		Decree on the Fiscal Framework	Parliament	
June	t-1	Budget ceilings	Government (second session)	
September	t-1	Draft Budget Memorandum and draft budget	Parliament	
October-November	t-1	Supplemented Budget Memorandum and Law on Budget Execution	Parliament	X
Budget execution				
July	t	Supplementary budget ¹	Parliament	(X) ²
July	t	Mid-year report on budget execution	Parliament	
Financial Reporting				
March	t+1	Draft annual accounts	Parliament	

Notes: ¹Not every year, depending on necessity; ²The same IMAD update of April used in budget preparation

4. The role of the budget analyst

4.1. Key tasks

UK

Tasks related to the Spending Review cycle

The spending teams act as an intermediary between HMT's central Spending Review team and the line ministry. In this role they operate – alongside their ministerial colleagues – as *political managers* of the process. Ministers must ultimately agree spending settlement and the attitude and disposition of line ministers will matter in determining whether the settlement is agreed, or disputed. HMT and the ministry aim to keep lines of communication open between officials on political developments to reduce the chance of a high-level political clash.

The Spending Review process naturally builds in incentives towards a more adversarial relationship between the line ministry and HMT. Respondents noted that the current fiscal situation sharpens the 'zero sum' element of budgeting. With the UK experiencing a sharp relative reduction in public spending and some ministries facing steep budget cuts, the discussions on spending allocations are particularly challenging. This contrasts with Spending Reviews in the earlier part of the century where the discussion was more about how to allocate growing shares of public expenditure between ministries, making it possible to please more people.

Tasks related to the annual budget cycle

The following tasks are carried out most regularly:

- Review of monthly OSCAR figures (provided by the ministry through HMT/GEP).
- Review of monthly ministerial internal management information (provided by the ministry).

GEP and the Principal are responsible for reviewing the monthly updated figures on OSCAR to broadly monitor that: 1) spending for the previous month just loaded is in line with that month's forecast (and to challenge the ministry where it isn't); 2) spending forecasts to the end of the year are in line with agreed control totals³⁷ (and to challenge the ministry where it isn't); and 3) any particular changes, agreements or revisions in control totals and agreed spending are reflected (e.g. if a ministry has been granted additional funding). The first reaction to anything that looks unexpected will consist in the Principal contacting the ministry informally to raise questions. GEP undertakes most of the basic analysis and proactively raises questions with the Principal where necessary, rather than the Principal "pouring over the numbers" to try and make sense of them.

All respondents pointed to the importance of their monthly copy of a ministry's internal financial management information pack for 'live information' of what is happening in detail with ministerial spending. This pack is usually intended for Directors or Managing Directors within the line ministry itself. This, combined with the ongoing personal interactions with the ministry's finance staff, formed the basis of their knowledge about the broader spending position. The analytical task of the Principal is to review the pack, assess its internal validity and consistency, and review the information for any points/issues/concerns that the ministry has not identified (or sufficiently identified),

including HMT priority spending areas. Any further questions/analysis/issues would likely be directed to the ministry, who would be asked to provide further information on the points raised by the Principal. The information provided is broadly trusted, in the sense that it is not expected that ministries would ever directly provide false information to HMT, but Principals noted they are aware that ministries hold the information advantage and face incentives to sometimes outline ‘the worst case scenario’. This source of information appeared more important than the OSCAR monthly spending figures. This is perhaps understandable as the internal management information packs include detailed analysis, forecasts and discussion of fiscal risks; whereas OSCAR figures provide just headline numbers (which are themselves uploaded by the ministry).

Relatively little is expected from Principals regarding spending control in terms of written outputs, such as submissions, memoranda and/or reports. GEP provides monthly updates to the Chief Secretary to the Treasury (CST; the HMT Minister with specific responsibility for public spending) on the progress of expenditure against plan. These updates may require input from Principals if their ministry is mentioned in particular, but there is no “standing” written reporting procedure from spending teams to GEP; the relevant issues would be discussed and agreed in the weekly or fortnightly meetings between the two. Every six months, GEP writes a more detailed report on the progress of public spending for the CST. Principals may again be asked to contribute to the report to cover specific items on which they have policy oversight. In general, formal written reporting from Principals to more senior officials and/or ministers would take place “by exception”, i.e. if there is a large problem, a major risk/opportunity or a difficult (and/or politically charged) spending issue. Normally they would input into GEP processes as needed.

All three Principals interviewed followed very similar procedures. They all emphasised the distinction between the ‘strategic finance’ function (with whom they engage on issues of spending policy, fiscal risks and overall in-year position management) and the ‘accounting’ function (with whom GFR tend to deal with directly). The focus of the Principal’s role is firmly on the ‘strategic finance’ issues rather than the mechanics of public spending.

The Netherlands

Tasks related to the four year cycle

In the period before the parliamentary elections the Inspectorate updates the list of savings options that can be used to finance new spending initiatives of potential coalitions of different political orientation. The list is subsequently updated annually and can be used during the Cabinet period to finance expenditures that are not foreseen in the coalition programme and the expenditure framework. The list of savings options makes use of spending review reports that have previously been produced but not yet been used³⁸.

A task that relates to the four year cycle but is not carried out at its start, concerns the compilation of packages of inter-ministerial reallocation, that takes place in reaction to major unforeseen events, such as the global financial crisis. Respondents mentioned in this respect the EUR 12 billion Spring Agreement of 2012, the EUR 16 billion Autumn agreement of 2013 and the EUR 5 billion package of 2016. The package of 2012 was not only required to comply with the overall ceilings of the cabinet period (starting in 2010³⁹) but also to comply with the *ad hoc* downward adjustments of the overall ceiling required by the rules of the SGP of the European Union⁴⁰.

Tasks related to the annual budget cycle

The following tasks are carried out most regularly:

- Review of IBOS figures;
- Brokering general compensation packages;
- Analysis of underspending.

One of the key tasks of each section of the Inspectorate is regularly updating the estimates in the IBOS system. A junior official of each section typically carries out this task but this does not imply that it is not important, on the contrary. The IBOS system constitutes the information base of which all other work depends. The Inspectorate has to approve all changes at every update. This may incidentally lead to discussions with the finance directorate of the line ministry at the level of the section head. The credibility of financial data can often be checked by simple $p \times q$ (price times quantity) calculations. Programmes are broken down in units, for instance, services delivered, or clients served, or units constructed or personnel employed, and budgetary options (either new spending or new saving) can then be compared with existing budgets from a $p \times q$ perspective. If an IBOS update is based on a higher price per unit than an existing budget then the line ministry has something to explain. If no agreement is reached a section may decide to submit the matter to the Minister of Finance. Common reasons for such submissions are: 1) the line ministry wants to start a new policy that in the view of the Inspectorate is not necessary or useful, 2) the line ministry has not provided credible specific compensation for overspending on a line item. Performance data are particularly important when a line ministry proposes a new spending initiative. The line ministry has to show that the new initiative is at least as effective and efficient in relation to given policy objectives as existing policies, and preferably more effective and efficient. The budget analyst will resist a new initiative if the line ministry cannot show that this is the case. The Inspectorate is mandated to apply a marginal check, but ultimately effectiveness and efficiency are seen as the responsibility of the line ministry. However, both respondents indicated that compensation is the first and foremost requirement. After the minister of Finance has decided that a proposed specific compensation measure is not appropriate, the line ministry usually acquiesces. Escalating a problem concerning the propriety of specific compensation measures would harm the reputation of a line ministry at the Ministry of Finance, which the line ministry tries to avoid.

Another important task in the context of the annual budget arises incidentally, namely if a line minister is confronted with a major adverse development that they cannot solve within their own budget. The line minister may then appeal to the Ministry of Finance with a request for general compensation. For instance, the refugee crisis of 2015 and 2016 led to an additional claim on the ODA budget (for development aid) since the costs of aid to refugees during the first year of their stay in the Netherlands is covered by that budget. This claim could only be partially solved by the Ministry of Foreign Affairs. Approximately EUR 1.5 billion was released in the general budget. Another example was the reallocation in favour of the police, intelligence agencies and judicial services in the 2017 budget connected to the terrorist threat. This was paid for by all ministries in proportion to their budget. The brokering of such forms of general compensation require a large effort of the section that supervises the line ministry concerned, as well as good co-operation within the Inspectorate with other sections and good internal communication with the Minister of Finance. However, it should be emphasised that general compensation occurs only rarely in special circumstances. In the entire previous Cabinet period it has occurred only twice. The norm is that ministers must solve their own problems by specific compensation.

One respondent also mentioned the annual analysis of line items that are not fully exhausted at the end of the year, as an important task. All sections of the Inspectorate perform such analyses. They often provide insight in underlying problems of a policy. For instance, when intended recipients of a social benefit or a subsidy cannot be properly identified, or that the execution of public works takes more time than expected.

Budget analysts are supposed to be familiar with important research results concerning the programmes under their supervision, but they are not supposed to be policy analysts themselves. For this reason the Inspectorate has created the Bureau of Strategic Analysis. Although the officials of this bureau are in principle regular budget analysts that are supposed to take part in the switch policy of the Inspectorate, during their stay in the Bureau they are supposed to develop basic skills in the area of policy analysis⁴¹ and to support colleagues of the line sections in the development of sensible savings options.

Each section of the Inspectorate produces 10 to 20 memoranda for the Minister per month. Major memoranda concern the annual advice to the Minister on the draft budget, which serves as the basis for the annual bilateral meeting between the Minister of Finance and the line ministry. These bilateral meetings usually take place with all line ministries, but can incidentally be skipped if there are no problems that require political decisions. Bilateral meetings may also take place in August, preceding Cabinet decision-making on the revenue side of the budget. This may also require a major memorandum.

Next to these major memoranda to the Minister there is a permanent flow of memoranda on subjects that are tabled in the weekly meeting of the Council of Ministers as well as the meetings of the sub-councils. The Minister of Finance participates in most of the sub-councils.⁴² Incidentally, there are memoranda concerning the application of the budget rules during the updates of the IBOS system. Memoranda are addressed to the Minister and usually drafted by a member of the section whose name is on the memorandum. The head of the section countersigns. So do the Director of the Inspectorate, the Director General of the Budget and the Secretary General. Incidentally, the head of the section may draft a memorandum themselves but not all section heads do so.

Respondents stated that all sections of the Inspectorate basically do the same work, regardless of the nature of the line ministry they supervise and regardless of the nature of the spending programmes of the line ministry. There is no specialisation of budget analysts, apart from the fact that every budget analyst is supposed to learn enough about the spending programmes under their responsibility in a very short time-span after they have been assigned to them to be able to function properly. The emphasis on generally applicable skills is further promoted by an active switch policy, which is aimed at switching every official of the Inspectorate after at most 4 years to another section.

Slovenia

The following tasks were carried out most regularly:

- Preparation of advice to feed into the government sessions;
- Monthly checking of fiscal performance;
- Analysis of legislation.

A weekly task revolves around the preparation of advice to feed into the government sessions every Thursday. A pre-discussion is held on Tuesdays to clarify the positions of the ministry, co-ordinated by the cabinet of the minister and generally attended by the head of each directorate. Often as part of this process, the Director General will review 15-20

memoranda. The memoranda are generally prepared by budget co-ordinators or officials at a similar level in other departments within the Directorate.

The Director General of the Budget also holds meetings every two months to check general government performance. Within the State Budget particular importance has been assigned to monitoring the performance of social benefits which are driven by rights established in legislation and make up a large share of the budget (EUR 1.2 billion out of the total EUR 9.5 billion). For some Budget Co-ordinators, monitoring and briefing associated with budget execution focuses on the aggregate position for the direct budget user against the quarterly cash ceiling.⁴³ For welfare spending by the Ministry of Labour, monitoring is more involved. Payments are rights-based and highly political. As a result, there are also periodic (mostly monthly) meetings in the Ministry of Finance with the State Secretary to monitor welfare payments.

Understanding legislation and legal issues appears to be a central analytical task for Budget Co-ordinators, at least the more senior ones interviewed for this research. This includes checking the compatibility of draft laws with EU legislation, such as the rules concerning State aid. Furthermore, each draft law must have a financial paragraph on costs, which must be checked on realism and affordability. One Budget Co-ordinator explained their methods as broadly 1) establishing the legal basis for an intervention or change; 2) checking whether it is compatible with existing financial and other legislation; 3) reviewing the financial consequences presented by line ministries and the assumptions/ methodology behind those calculations; 4) considering the impact of the intervention on society and the economy. Developing a firm opinion to communicate to the Minister of Finance might take considerable time. In one example, the Budget Co-ordinator had worked on a new draft law over a period of five months.

The budget analyst role appears to differ considerably between individuals and portfolios. While the Budget Co-ordinator for the Ministry of Agriculture had dedicated most of her time to managing exceptional issues (estimates 70%) including reviewing changes to legislation, the Budget Co-ordinator for the Ministry of Labour was more involved with actively monitoring and projecting welfare spending, which is rights-based.

4.2. Managing the relation with the line ministry

UK

Nature of the co-operation

HMT's relationship with line ministries⁴⁴ on spending control is shaped and affected by a number of overarching and interrelated factors. The first is the nature of HMT's 'macro control' approach to spending control. Detailed spending decisions are left to ministries and their Accounting Officers, and are generally not challenged provided they follow HMT's rules and guidance. This naturally leads to a 'hands off' approach to spending control where most day-to-day decisions are left to ministries. Once a spending settlement is agreed at spending reviews, the approach operates primarily on 'reporting by exception' i.e. ministries will report on the detail of their public spending actions when there is a problem, rather than when things are satisfactory in a steady state.

A second factor determining HMT's relationship with line ministries is the substantial trust and strong informal relationships between HMT spending teams and their ministerial counterparts. Principals noted that in general they leave ministries to get on with spending, and trust that problems will be brought to their attention when needed. Principals did not

appear to doubt that information provided to them was correct, although they were aware of the incentives ministries have to selectively and carefully present their figures.

A third factor is the high level political alignment between Cabinet ministers on the government's public spending agenda. This arguably is a 'macro-political' underpinning to HMT's overall ability to control spending which cascades down into the ability of Principals to work productively with their ministry on spending control. The nature of the UK's (predominantly) single party governments combined with extensive executive control of public spending ensures that accountability for fiscal results lies clearly with the government of the day; and as a result Cabinet ministers face strong incentives to moderate their spending behaviour (however reluctantly) to respect overarching government goals. In addition, HMT Principals and their opposite numbers will be aware that for all but the most controversial and pressing spending issues, their Cabinet minister superiors will go to great lengths to avoid seeming to argue with each other in front of the Prime Minister for ultimate adjudication. As a result, there is strong pressure on both sides to find some form of resolution to spending control issues rather than simply withdraw co-operation from one side or the other and endlessly escalate upwards.

Information streams

The most important information streams are the monthly submission of OSCAR numbers and the monthly ministerial internal management information. HMT's own controls on these data are relatively high-level (e.g. OSCAR numbers and accompanying Estimates processes do not give a great sense of detail of what is happening below aggregate levels). To access more detailed data and engage in more granular discussions on spending control, respondents highlighted a number of 'informal' contacts and meetings with officials of line ministries. These informal processes constitute a 'core' part of the Principal's role.

The three Principals interviewed emphasised that they are in regular contact with the finance functions of their ministry. They characterised this as 'always picking up the phone' or 'every day I contact them for something'. They emphasised that they mostly speak to the 'Strategic Finance' part of their ministry rather than the 'accounting' part of the finance function (mirroring the division within HMT between the 'mechanics' of spending run by GFR and the 'policy/political' aspects run by the Spending Principals).

Each Principal noted that they have face-to-face 'keep in touch' or 'broad view' meetings with their ministry. These are informal and the mid-level staff would represent HMT at these meetings (although typically more senior staff than attend from the ministerial side). These informal meetings would have a rolling agenda covering both mechanics of spending (e.g. is the process of estimates or supplementary estimates on track) as well as policy issues (even if substantive policy debate was taking place elsewhere).

The Director of the Public Spending group chairs the monthly meetings of the Finance Directors of the line ministries, where information is exchanged on the progress of budget preparation and execution.

The Netherlands

Nature of the co-operation

The budget analysts of the Inspectorate co-operate closely with their counterparts in the line ministries. These counterparts are the finance directorates of the line ministries. Most officials of the Inspectorate also meet with officials of line directorates of the line

ministries. However, the frequency of such meetings differs between line ministries. Some Finance Directors want to be informed about such meetings, some want to attend such meetings and some do not allow such meetings at all. In general budget analysts spend around 5 to 10 hours of their weekly working time in meetings at the line ministry.

Respondents emphasised that a relationship of confidence between the Inspectorate and the financial directorate of the line ministry is essential for each side to function effectively. The need for smooth co-operation is reflected in formal arrangements. The appointment of a Finance Director in a line ministry requires the approval of the Minister of Finance. For this reason the Inspectorate is always represented in the recruitment commission of a new Finance Director. Furthermore, the Task Decree for Finance Directorates mentions tasks that fall outside the hierarchy of the line ministry and for which the Finance Directors are not accountable to the line minister.

The finance divisions of the line ministries generally do not try to withhold information, even if it sheds critical light on policy or proposed policy. The co-operation between the line ministry and the Inspectorate is a repeated game. The line ministry will need the Inspectorate in the future and has no interest in hiding information. The line ministries are generally very concerned about their good reputation with the Inspectorate⁴⁵.

The general attitude of the budget analysts of the Inspectorate is that they operate pro-actively concerning potential adverse developments in that they ask questions about matters that give them reasons for concern. Conversely, they operate reactively concerning proposals and problems that the finance directorates bring to their attention.

Budget analysts and financial divisions co-operate in the preparation of the bilateral meetings at the political level in June and sometimes in August. Given the character of such bilateral meetings they try to limit the items to be decided by the ministers to a very small number, for instance two or three. This implies that they try to solve all other problems by themselves.

Budget analysts are generally not invited to participate in internal working groups or meetings of the line department. However, they do participate in inter-ministerial working groups or task forces that are established by the Cabinet or by a minister to study problems that concern more than one ministry. Recent examples are the Task Force Governance Asylum Procedures and the Task Force Care Expenditures. The Inspectorate is also represented in all spending review working groups.

Information streams

Respondents stated that the IBOS system constitutes the most important information stream between the line ministries and the Inspectorate. Finance directorates often seek informal guidance from the Inspectorate before they submit IBOS data. This may lead to discussions about the usual topics (is the special compensation offered credible?, is the new spending initiative necessary and useful to begin with?) even before the data are inserted in the system.

Other important information streams that lead to informal discussions or requests for guidance on the part of finance directorates are the policy letters that have to be submitted by the line ministries in March⁴⁶. Informal discussions may in turn lead to memoranda from budget analysts to the Minister of Finance with a request for guidance (“picking up a mandate”).

A formal instrument that the Ministry of Finance can apply if a certain policy area poses serious threats for budgetary discipline is the imposition of preventive control. This implies that the budget holder for the policy area must ask for approval from the Inspectorate for all commitments to be incurred from their budget (preventive approval). The instrument of preventive control is used selectively, since it contradicts the principle of devolution and puts a heavy work-load on the section of the Inspectorate concerned. It tends to lead to a daily stream of detailed information that is difficult to handle by the section if it is applied. A recent example is the imposition of preventive control on the commitments of the Tax Service after a case of serious miss-management had occurred. In order to handle the resulting information stream, a dedicated team of 5 budget analysts was formed.

A further information stream flows through the monthly meetings of the IOFEZ group (Inter-ministerial Consultation Organ for Financial and Economic Affairs). This group is composed of the Finance Directors of all ministries and is chaired by the Director General of the Budget. The IOFEZ group is used by the Ministry of Finance to provide information on the budgetary situation and guidance on IBOS and other submissions by the line ministries. Finance Directors can use the meetings to ask questions and to informally discuss upcoming problems in their sectors⁴⁷.

Slovenia

Nature of the co-operation

The most important form of co-operation between the Ministry of Finance and the line ministry is the exchange of information and the communication on the budget between the Budget Co-ordinators and the Finance division of the line ministry.

Budget Co-ordinators may also approach line divisions in the ministry or even direct budget users under the ministerial portfolio in order to obtain the information that they need. However, the relationship with officials outside the line ministry's Finance division is not always as cordial. One of the Budget Co-ordinators noted that she has a better relationship and gets more information from junior officials in line divisions, but at higher levels the officials become more "foggy".

The Finance division from its side also maintains contacts with other units of the Budget Directorate and with other Directorates of the Ministry of Finance. For instance, they may discuss issues relating to the preparation or execution of projects funded by the EU with the Management of EU Funds and Cohesion Policy Department. They may also be in contact with the Treasury Directorate with regard to issues related to budget execution.

When asked how often they communicate, both Budget Co-ordinators claim to speak no less than every week with their counterpart in the finance division of the line ministry in the off-season, and as much as several times a day during budget preparation (April-September). Communication is very diverse, ranging from discussions on policy issues to questions on how to use the budget preparation system (APPrA) The relationship at this level is generally collegiate, with more adversarial discussions generally involving higher levels of the administration.

The Finance division of the line ministry appears to view requests for additional resources as a lottery, while the Ministry of Finance officials also noted that in negotiations "sometimes you win, sometimes you lose". Issues may be overtly political, and so cannot be resolved or vetoed by the Ministry of Finance, even at the ministerial level. The interviews suggested that some ministries, such as the Ministry of Labour and Ministry of

Education, may be able to use their political weight to seek additional resources, though this may change with coalition arrangements and policy priorities.

Information streams

Arguably the most important channel of communication is the ICT system for budget preparation (APPRA). This system is closely interfaced with the accounting and budget execution system (MFERAC). At the technical level there are many interactions related to the mechanical process of entering proposals, explanations and output indicators, including clarifications regarding guidelines issued by the Ministry of Finance.

Once the budget submission is drafted, the Budget Co-ordinator conducts a detailed line-by-line review of its content, again using APPRA. This is generally followed by discussions with the line ministry in order to clarify submissions. Unresolved issues are communicated more formally in writing. Though APPRA is also used to plan and report on non-financial performance, and interviews confirmed that a large amount of information is gathered, this does not appear to be used extensively in decisions related to the budget, in the finance ministry at least.

Until now there is no regular meeting of the Budget Director with the heads of financial divisions of line ministries in Slovenia⁴⁸.

4.3 Qualifications and HR policy

UK

Educational background

The recruitment of budget analysts and their GEP oversight colleagues does not follow a fixed path. There is no special “budget officer” entrance route or mandatory qualifications for such posts. HMT, along with most of the UK civil service, generally follows a “generalist” model that does not expect specific qualifications (e.g. accounting certification) for staff to undertake these roles. From discussions with staff it appears that Principals have at least 8 years civil service experience, which may not all have been at HMT. They are all graduates, although they may have studied a wide range of different subjects and there is no expectation that to work on public spending, HMT staff must be graduates in economics, finance, public administration or similar fields. Many Principals and GEP staff will also have master’s degrees, although this is not a requirement. Most Principals and their GEP counterparts are in their mid-30s upwards.

Training

Training on spending control, for example the principles of HMT’s public spending framework and the procedural rules, is provided in-house by GEP. This can be delivered either as part of a formal group training (which may involve a wider set of HMT staff who are not Principals) as well as “side-by-side” coaching and instruction by GEP as issues arise. It was emphasised by respondents that “experience on the job” was what really mattered and that the rules of public spending were not particularly difficult to understand.

Performance assessment

HMT has a formal performance management system, involving annual objectives, and half-yearly/yearly reporting and assessment. Objectives relating to spending control are included in the annual work objectives of Principals. Most HMT staff are high performing.

An informal combination of personal reputation and day-to-day perceived work capability is the main criterion for determining onward success, to which the formal assessment contributes, but does not constitute the sole determining factor. There is a very limited system for variable compensation or bonus payments for good performance.

Switch policy

Principals are supposed to stay in post for at least three years although HMT has historically struggled to maintain and enforce this requirement. An additional “intermediate” grade (E2) has been introduced across HMT in order to incentivise institutional retention in the key mid-level grade (which includes most Spending Principals), where experienced staff were seen as particularly affected by incentives that promote high turnover. More junior spending team staff are expected to spend up to 2 years in post. There are informal limits on maximum duration of Spending Principals in post (i.e. staff are effectively not permitted to remain in their spending role indefinitely), but there is no presumption that an official leaving a spending team role would automatically take up a position in another spending team.

The Netherlands

Educational background

The educational background of the officials of the Inspectorate is quite diverse. Most of them are recruited immediately after university or after some years work experience elsewhere, but there is also a small side instream of persons who have substantial work experience (more than 8 years) elsewhere (around 10%). Most recruits have studied economics or public administration, but there are also some engineers, lawyers, econometricians and social scientists. Most recruits arrive via the programme of financial trainees that is run by the Ministry of Finance. This programme takes in 40-50 trainees per year for the entire financial function of the central government. The Directorate General of the Budget takes four graduates of this programme per year. The Directorate General of the Budget as a whole takes also some recruits from the BOFEB trainee programme, which focuses on policy economists for the central government.

Training

All new officials of the Inspectorate are supposed to follow the VOFHA course (professional training public finance for senior officials) that is run by the Academy of Finance, Economics and Operational Management of the Directorate of Budget Affairs. In subsequent years they are offered a variety of other courses, including advanced VOF courses focusing on various aspects of the budget process, but also training in soft skills like negotiating, coaching and management, and seminars and courses related to the policy field in which the budget analyst is working. The officials that manage the IBOS system attend the practical course that the Bureau of Policy Preparation organises for them. On average, a budget analyst takes part in a training course every other year.

Performance assessment

The performance of all staff of the Inspectorate is assessed once a year in a performance appraisal (backward looking). Budget analysts in the sections and bureaus are assessed by the section or bureau head. The section or bureau heads are assessed by the Director or the Deputy Director of the Inspectorate. Section heads discuss the draft appraisals of their staff

with the Director and Deputy Director in order to ensure equal standards throughout the Inspectorate. Also once a year, budget analysts and section heads enter into a formal discussion about personal development and career objectives (forward looking).

Variable compensation and bonuses have virtually been abolished, although incidentally somebody still gets a bonus, mostly in cases that they carried out a large or difficult task that was far beyond their job description.

Switch policy

Every official of the Inspectorate switches regularly to another section or bureau of the Inspectorate. After three years in the same position, budget analysts are supposed to start looking around at positions in other sections or bureaus that fit in with their personal aspirations and to acquaint the Director of their preferences (juniors switch after 2 or 3 years, seniors switch after 3 to 4 years). After 4 years, most budget analysts have switched jobs. For section and bureau heads these terms are generally a year longer. Apart from fostering generally applicable skills and offering staff an attractive career path, the switch policy also aims to prevent that budget analysts develop relationships that would be considered too cozy with the line ministry (“going native”). Within sections, switches between the programme areas assigned to a budget analyst are even more frequent.

Switches from the Inspectorate to other Directorates of the Directorate General of the Budget or the Ministry do also occur but are arranged *ad hoc*. Outside the Inspectorate there is no official switch policy that is imposed from above.

Slovenia

Educational background and recruitment

Recruitment is regulated by the Ministry of Public Administration and overseen by the Civil Service Council and has been limited in recent years by staff ceilings imposed in response to the fiscal crisis. This has led to a reduction in the number of staff in the Ministry of Finance overall from 501 in January 2006 to 428 in January 2015. More recently some recruitment has been permitted and the number rose back to 444 in January of 2017.

Staff in the Budget Directorate are mostly economists by training; around 13% (13) have a master’s degree, while a further third (23) have a university degree. Most of them are recruited immediately after university or after some years work experience elsewhere (usually in other parts of government). More generally, research undertaken by IMAD (2015) indicates that a greater share of public administration employees hold tertiary-level qualifications in Slovenia (56.7% in 2011) as compared to the EU-28 average (37.5%).

Training

There is no formal training programme for budget staff in the Directorate. Staff receive internal training on the use of the two IT systems (APPrA and MFERAC). Some respondents also mentioned that they actively look for external courses to attend. However, in general staff typically learn on the job.

Pay and performance appraisal

Base salary and bonuses are set through a comprehensive collective bargaining framework for the whole of central government, which is revised annually. Along with the reduction

in the number of staff, salaries have been cut twice in nominal terms in recent years as part of the fiscal consolidation package and performance related pay has been suspended.

More broadly, there remain questions about the effectiveness of performance appraisals in an administrative culture that continues to be influenced by the rigid and relatively egalitarian traditions of the old Yugoslav Republic. Salary progression (referred to as “promotion”) is linked to years spent in post and a positive performance assessment, but in practice this is viewed as “automatic” and expected every three years. Some respondents believed that this undermined efforts to reward and motivate good performers but it was also suggested that the regulations for civil servants' salaries give enough options to reward and promote selected good performers (though some of these options may have been frozen in recent years as part of fiscal saving measures). The respondents felt however, that the administrative culture may discourage managers from exercising performance incentives to the extent legally possible.

Though there may be scope to improve these practices, some respondents suggested that the budget directorate retains a strong work ethic, in which underperformers typically struggle. Concerns related to administrative culture typically referred to incentives for staff to retain information – to have one’s own “garden” as one interviewee explained – or to increasing burdens of bureaucracy and management in the ministry which slowed down decision making.

Switch policy

Staff in the budget department are mostly women (77%), with an average age of around 44 and have been in post for over 10 years (an average including recent hires). There is no standing policy for moving staff between sectors in the budget department or between departments within the Budget Directorate and finance ministry more generally. Positions in the ministry tend to be held by individuals for long periods with an emphasis on the depth of knowledge in a specific sector or area of administration. The lead budget co-ordinator for the Ministry of Agriculture had overseen that sector for over a decade, while the budget co-ordinator for the Ministry of Labour had been moved from another part of the ministry as part of an internal restructuring process three years earlier. One respondent claimed that the management of the fiscal framework has been held by a single individual for over two decades.

5. Conclusions

This paper reports on findings in three case studies on the behaviour of budget analysts working in the Budget Office of central government. The three cases studied were of the UK, the Netherlands and Slovenia. The findings in this paper confirm that there are similarities in the behaviour of budget analysts in the three countries, but also a number of conspicuous differences. The following sections will first highlight the similarities and differences and conclude with some remarks from a theoretical perspective.

Similarities

The behavioural similarities are rooted in the institutional role of the budget office and are probably valid for many other countries. They include the practices by which the functions of challenge the proposals of the line ministry and liaison are fulfilled in relation to the line ministry. These functions are typically separated from those officials co-ordinating the budget and managing fiscal aggregates within the finance ministry itself.

The analytical function involves analysing of what the line ministry has proposed. This analysis is not very sophisticated. The budget analyst is not a policy analyst and rather relies on such tools as execution rates and $p \cdot q$ (price times quantity) calculations or benchmarking analysis. The budget analyst does not need a PhD in economics nor extensive expertise of the policy field in which they are working. The skills that the budget analyst needs are learnt mostly on the job and social skills are equally important as technical skills.

The liaison function is mostly through frequent interaction with the finance division of the line ministry. Budget analysts are assessed on the basis of their insight in the backgrounds of the line ministries' behaviour. They must be able to answer difficult questions on topics that the Minister of Finance is interested in. These questions are not only about the merits of the policies that the line ministry is pursuing or proposing, but also about political backgrounds: which pressure groups are supporting or opposing the line ministry; what kind of support is the line ministry seeking from other ministries; political parties; social partners etc. For this role budget analysts are largely dependent on good relations with the finance division of the line ministry but they also need political sensitivity and insight of political forces in which the line ministry is operating.

Differences

As to the differences, this paper's findings confirm that there are big differences between the UK and the Netherlands on the one hand and Slovenia on the other. These differences do not only concern budgetary institutions, but also in the behaviour of the budget analyst. However, there are big institutional and behavioural differences between the British and Dutch cases as well. These findings highlight the insight that the budget process in central government is an idiosyncratic part of public administration that is thoroughly shaped by domestic traditions and institutional developments⁴⁹. Having worked on public financial management in different countries, the authors often noticed that only precise observation leads to a thorough understanding of what is going on in a particular country and that it is often misleading to generalise from the experiences in other countries on the basis of superficial institutional similarities. This insight has been confirmed again in this paper.

The UK/The Netherlands versus Slovenia

The first and arguably most important difference between the UK and the Netherlands on the one hand and Slovenia on the other ensues from the role of the expenditure framework. Both in the UK and the Netherlands all respondents confirmed that the major budget functions of aggregate fiscal control, allocation and operational control have shifted from the annual budget process to the multi-annual framework process. Henceforth the annual budget process focuses on implementation. It is true that Slovenia also practices a medium-term expenditure framework (as presented in the Decree on the Fiscal Framework), even though it can be revised year-to-year (a so-called "flexible framework" as opposed to a "fixed framework" that stays in place for a number of years⁵⁰; OECD 2015). However, only fiscal aggregates in this framework are binding, in the sense that budget preparation has to comply with its limits, and then still under the proviso that there have not been substantial changes in the circumstances on which the ceilings were first proposed⁵¹. Budget ceilings for individual proposers of financial plans remain subject to negotiation and line ministries feel free to develop budget proposals that exceed the ceilings that are derived from the fiscal framework. The negotiation process between line ministries and the Ministry of Finance mostly takes place *after* the ceilings have been established (in the second budget

sessions of government) instead of *before* this happens as is the case in the UK and the Netherlands.

This applies to numerous countries that work with an expenditure framework. In theory it should be possible that a flexible framework would be binding during subsequent budget preparation and execution (and that consequently budget negotiations would take place before the framework is established), but the authors know of no case where this applies. *The presumption is that a flexible framework is in practice, a non-binding framework.* This study does not suggest that a non-binding framework is entirely senseless. It gives an orientation to subsequent budget preparation in the sense of top-down budgeting and in some cases, including Slovenia, it has probably contributed to aggregate fiscal control and the halting of the relative growth of public expenditures in relation to GDP. However, it does not put the same kinds of constraints on budgetary policy as a fixed framework does. This applies even more so to the later years of the framework than to the upcoming budget year(s)⁵². A fixed framework forces a government to take structural savings measures during budget preparation that have little effect in the short run (t or $t+1$), but that are necessary in order to force the medium term estimates (for $t+2$ and $t+3$) under the ceilings for those years. Similarly, a binding framework makes it necessary to force new spending initiatives with little effect in the short run, but major structural effects, under the ceilings for later years, possibly through compensating structural savings measures. In general, a fixed framework tends to focus attention both during the preparation of the framework and during annual budget preparation, on what will happen in later years rather than on what will happen in the upcoming budget year. In the case of the countries discussed here, it appears to help the finance ministry focus the budget process on structural rather than temporary measures. The use of a multi-year fixed framework may also have changed incentives in the annual budget process (not in the multi-year framework process) as the relationship between the line ministries and the Budget Office has reportedly become less adversarial and more co-operative than it was before.

A second important difference between the UK/Netherlands and Slovenian cases concerns the focus of the budget analyst on the compliance with ceilings, instead of on operational control at the line item level. In the UK and the Netherlands, merits of programmes are mainly discussed in the framework process, in conjunction with the approval of new policies and savings. In the annual budget process, budget analysts focus on adherence to ceilings and apply only a selective marginal check on effectiveness and efficiency of new policies. Line ministries are responsible for operational control and are pretty much free to move resources between programmes and policy instruments as they see fit. In the UK, there are no line items to control. Formally, line items in the UK coincide with the control totals. HMT does not exercise control beneath these control totals, except where a specific and/or high profile spending item has been identified within the segments and sub-segments and it chooses specifically to monitor that item. In the Netherlands there are strict rules for compensation between line items, so that the ceilings cannot be exceeded. This is very different in Slovenia where the budget analyst is very much focused on operational control, including through oversight of changes in legislation initiated by line ministry, and where the Ministry of Finance is strongly involved in any reallocation between policy areas or policy instruments in the line ministries.

A third major difference concerns the budget reserve. In the UK, there is only a tiny budget reserve and it is hardly used. HMT strongly discourages and resists reserve claims and feels that the control totals must be complied with and applies a firm rule that the reserve is only there to address genuinely unforeseen and uncontrollable spending pressure. In the Netherlands there is no budget reserve⁵³. In Slovenia, appeal to the budget reserve and other

reserves is more common. There are no rules and practices that prescribe specific and general compensation and Finance divisions of line ministries lack the authority (and possibly the incentives) to impose compensation on line divisions that have not caused the overspending.

The mentioned differences are both of institutional and behavioural nature, but it can be argued that insofar as they are behavioural, they are rooted in institutional features of the budget process. However, our sense is that there are also behavioural differences that are mostly based on cultural rather than institutional conditions. In the UK and the Netherlands there is a strong civil service ethos of mutual trust and co-operation. This ethos is anchored in a tradition of autonomous public administration that has been influenced by private sector practices. In Slovenia, the culture of public administration is changing, but maintains a link to traditions in the old Yugoslav Republic. This has some notable influences on the horizontal co-ordination between ministries and within the finance ministry as well.

As far as horizontal co-ordination is concerned, the civil service ethos of mutual trust and co-operation in the UK and the Netherlands implies that the ability of the budget analyst to develop good relations with the line ministry and to understand its thinking and motivation is valued more than affinity with the aims of the minister or the government coalition. A notable example in the UK is the sharing of management reports from the line ministry with the budget analyst. Though in Slovenia individual relationships between budget analysts and the Finance division of the line ministry may also be strong, the level of openness at the formal level is more limited.

The culture of trust and co-operation is also important for the relations within the Ministry of Finance. Information sharing among different directorates as well as between junior officials is a matter of course in the UK and Netherlands, without asking permission from higher level officials. This culture is enhanced by relatively frequent job switches, which imply that officials are supposed to stay no longer than 5 to 7 years in the same position. Job rotation is partially formalised in switch policies, but also occurs without formal policies. In Slovenia information is more protected and there is no formal or informal switch policy.

The UK versus the Netherlands

In spite of the similarities between the British and Dutch cases, there are also remarkable differences. The most important ones are detailed below.

First, in the UK line ministries are responsible for compliance with the control totals. This means that they are constantly “compensating” overspending on spending categories below the level of control totals by savings found elsewhere, but this takes largely place below the radar of HMT and Parliament, because HMT focuses on the control totals and Parliament sees only the estimates (which coincide with the control totals). The main forms of compensation that are handled by HMT and that Parliament might “see” are re-balancing between AME and DEL expenditures where AME is running ahead of forecast, and (through its approval of Supplementary Estimates) recognition of reserve claims (which HMT keep as few as possible). Furthermore, AME/DEL compensation is decided by HMT on an *ad hoc* basis in light of circumstances and HMT might not even require off-setting reductions at all (for example, underspending AME items in one ministry may ultimately compensate overspending AME items in another ministry leaving a net zero effect). In the Netherlands overspending on line items has to be compensated by savings on other line items in the same ministry or sector (specific compensation) or in another ministry or sector (general compensation). Compensation has to comply with strict rules. Checking

compliance with these rules is a key task of the budget analyst. Almost all mandatory spending is under the ceilings.

Second, the number of ceilings (control totals) in the UK is relatively large, namely 5 ceilings for each of 53 ministries. In the Netherlands the number of ceilings is relatively small, namely 3 sector ceilings and 11 ministerial ceilings. The small number of ceilings in the Netherlands implies that they cover relatively large expenditures which facilitates compensation. This difference is somewhat relativised by the fact that in the UK many ceilings are (very) small (many ministries are small and AME capital ceilings in particular are small). Perhaps related to this large number of ceilings is the fact that there are some 20 spending teams in HMT consisting of 5 to 10 FTEs working on spending issues, versus only 7 sections of the Dutch Inspectorate of Finance equally consisting of 5 to 10 FTEs.

The effectiveness of top-down budgeting

Looking at the results from a more theoretical perspective, a first conclusion that comes to the fore is that all three countries have succeeded in halting the relative growth of public expenditures as a share of GDP (in the UK and the Netherlands already in the 1980s, in Slovenia in the first decade of this century). Assuming that the relative growth of expenditures is a necessary consequence of incrementalism (OECD 2015), this means that the budget process is no longer incrementalistic in the traditional sense of Wildavsky and that all three countries have succeeded in imposing top-down constraints on budgetary negotiations.

The role of top-down constraints has been emphasised in the economic theory of the budget process. This theory focuses on the “common pool” nature of tax resources⁵⁴. For every beneficiary of a government policy, be it a citizen, a parliamentarian representing a group of citizens, or a minister representing a group of parliamentarians, the benefits typically exceed the tax costs of the policy, since the benefits are concentrated more than the tax costs among specific groups of the population. The basic role of top-down constraints is that the overall tax level is decided simultaneously with spending proposals (both the continuation of existing spending levels and the approval of new spending proposals). This ensures that the preference of the large majority in favour of low taxation levels can have an effect on spending decisions, even if for every group of beneficiaries the benefits of a government policy exceed the tax-costs. The minister of Finance typically fulfils the role of the broker between the interests of the large majority of tax payers and the interests of the relatively small beneficiary groups of spending proposals. The fact that since the 1980s in most OECD countries the growth of expenditures has come to a halt in conjunction with the introduction of stronger top-down constraints, such as fiscal rules, medium term expenditure frameworks, and spending review procedures, can be seen as evidence for the role of such constraints.⁵⁵

In the economic approach incrementalism in Wildavsky’s sense of must be seen as specific set of decision-rules rather than as an alternative theory of the budget process. These rules include that during the budget process existing expenditures are taken for granted (no decreases on existing spending levels), that new spending is negotiated in bilateral meetings between “guardians” (minister of Finance and appropriations committees) and “advocates” (line ministries), and that only small increments can be proposed in each budget cycle. Under majority voting in the absence of top-down constraints, these rules may lead to an ever expanding government budget⁵⁶. This will even be the case if the benefits of every government policy are so concentrated that every group of beneficiaries consists only of a (small) minority of the citizens⁵⁷.

In Slovenia the transition from incrementalism to top-down budgeting has made clear strides in recent years but has not yet been completed. Indeed, the transition to top-down budgeting does not only mean that budget preparation starts with the establishment (or continuation) of ceilings but also that the decision on the ceilings is taken after consideration of all relevant trade-offs, in particular trade-offs between existing and new expenditure and between expenditure and tax revenues. This requires that the entire budget preparation process is moved forward so that all relevant information is available when the ceilings are decided. This information includes the multi-annual estimates for current policy, multi-annual forecasts for tax revenues, options for new policies (both new spending and savings options) and according multi-annual estimates and options for new tax measures and according multi-annual estimates for new tax measures. In Slovenia these conditions are not fully satisfied. The consequence is that negotiations take place after the ceilings have been decided. As our respondents indicated this often leads to decisions to cut the least politically sensitive items in the budget (investments). It also generates the feeling among budget analysts that budget preparation “is a lottery, where you can win or lose”. This situation is not sustainable in the longer run in view of the need for structural reforms.

In the UK and the Netherlands, the transition to top-down budgeting has mostly been completed. This has led in these countries to a clear split between the multi-annual framework cycle that fulfils the budget functions of aggregate fiscal control, allocation and operational control, and the annual budget process that focuses on implementation. In both countries large efforts are made to ensure that all relevant information for the required trade-offs are available to the decision-makers when the framework is decided.

This does not mean of course, that no further improvements are possible in the institutional set up of the budget process in the UK and the Netherlands. The UK could perhaps learn from other countries, including the Netherlands, on aspects such as the large number of ceilings, the relative frequent occasions where the total ceiling is adjusted during the lifetime of the framework and formalisation of the rules on compensation. The UK could also consider the Dutch experience and whether it would be better to simply formalise a DEL/AME merger or automatic compensation and what benefit that would bring. As far as the Netherlands is concerned the framework procedure could be improved. In the UK this procedure (Spending Review) is somewhat better structured than in the Netherlands. In the Netherlands the framework is basically decided during the Cabinet formation, which is a highly political negotiation process between party leaders that is conducted mostly in secrecy. Arguably, there is tension between the political nature of these negotiations and the need to respect evidence based evaluation results. Furthermore, although large efforts are made to provide the negotiators with all relevant information (mostly by the Netherlands Bureau for Economic Policy Analysis and the Ministry of Finance), some information is sometimes lacking. For instance, the Dutch spending review procedure is not always focused enough on the cabinet formation, which implies that sufficient, well-elaborated savings options are not always available for all expenditure areas. At the occasion of the last cabinet formation no comprehensive spending review has taken place at all. Moreover, well-elaborated tax options are often lacking. These deficiencies could in principle be corrected by the Ministry of Finance itself, but it would help if authoritative bodies such as the Study-group Budget Policy would provide guidance in this respect.

Notes

- ¹ The term fiscal policy is used in this paper in a broad sense: includes institutional policy as well as expenditure and tax policy.
- ² The term line item is used in this paper for the most detailed level of parliamentary authorisation of a budget item, regardless of the classification (there is no assumption that the line item is defined in an economic classification, possibly in addition to an administrative, functional or programmatic classification).
- ³ It may, for instance, be assigned to separate divisions of the ministry where the Budget Office is located, which are not formally part of the Budget Office, such as a separate Budget Division, Accounting Division (rules about accounting and financial reporting), or Treasury Division (rules about budget execution). The latter (Treasury) can also be outside the Ministry where the Budget Office is located (as in Australia, Canada and the USA). Other institutional policies can be assigned to the Ministry of Economy or Planning (rules about investment selection and execution) or to the Ministry of the Interior or to the Cabinet Office (rules about agencies, the civil service, procurement or evaluation). Responsibility for the independence and the relationship with the forecasting institution is a cross-government issue which is usually managed from the top of the ministry where the Budget Office is located. The Budget Office itself can also be outside the Ministry of Finance or the President's Office (as in Canada). In the USA both the Budget Office and the responsibility for institutional policies largely rests in the Office of Management and Budget under the President.
- ⁴ Tax policy is categorised as budgetary behaviour rather than as institutional policy in spite of the fact that it is based on permanent laws. The same is true for expenditure policy that is based on permanent laws, such as expenditures in the area of social security and public health. The main reason is that all these expenditures and revenues are in principle subject to annual authorisation.
- ⁵ Financial administration includes the execution of the budget and the preparation of financial reports (Kraan 2017).
- ⁶ The receding government reforms broadly aimed at privatisation, deregulation and tax relief, took place in the mentioned countries before 1990, when Slovenia, Hungary, the Czech Republic and Slovakia were still under communist control.
- ⁷ The questionnaire and the replies received are available upon request from Kraan (djokraan@outlook.com).
- ⁸ The largest savings packages occurred in 2010 (EUR 18 billion by 2014 and EUR 25 billion structurally), in the spring of 2012 (EUR 12 billion by 2017 and structurally), in the autumn of 2012 (EUR 16 billion by 2017 and EUR 18 billion structurally), and in the autumn of 2013 (EUR 6 billion by 2017 and structurally).
- ⁹ It had reached 1.5% in 2016 (CBS 2016).
- ¹⁰ It has been reduced to 66.2% in 2016 (CBS 2016).
- ¹¹ The sustainability balance indicates (in percentage of GDP) the extent to which current public services, including social benefits, are sustainable (payable without increasing public debt) in the long term (until 2100).
- ¹² In the UK, administrative units of government have different naming conventions. Some institutions are called 'departments' and others are named 'ministries'. In addition, there are different governance and accountability relationships between institutions such as 'non-ministerial departments' and regular 'departments'. For the purposes of this study, the term 'ministries' is used to cover all institutions with a direct accountability relationship to HMT and

Parliament for their spending, even if their formal naming convention and/or exact governance structure may vary.

- ¹³ The tasks of politically appointed members of cabinet are not specified by regulation. In practice roles vary but are generally not limited to administrative support (which is provided through the civil service positions) and extends beyond public relations.
- ¹⁴ DEL stands for Departmental Expenditure Limit.
- ¹⁵ AME stands for Annually Managed Expenditure.
- ¹⁶ In 2014 HMT undertook an exercise to go line by line through AME expenditure and identify which spending items could be moved into DEL totals (to incentivise greater control by the ministry over the expenditure). Some items were moved, but large parts of government spending (mostly welfare related) remain in AME.
- ¹⁷ At the spending review forecasts for non-tax revenues are agreed. If the income exceeds the agreed limit by less than 10%, the ministry can keep the addition and add it to their spending. If the income exceeds the agreed amount by more than 10%, the ministry needs HMT approval to keep the addition.
- ¹⁸ The National Audit Office believes that HMT focuses the Spending Review system too much on reaching a financial settlement (namely getting the department to agree to the control totals for the medium term in a bilateral negotiation), and not enough on using the process to embed value for money, encourage cross-government prioritisation and support inter-departmental collaboration (National Audit Office 2012, 2016)¹⁸.
- ¹⁹ It is ‘open’ for updates and amendments for the current year and for the four years previously. Sometimes departments restate their spending; other times the Office of National Statistics reclassifies expenditure and departments retrospectively amend their inputs to reflect this. After these five years have passed, it is ‘frozen’ and the figures become the historical record.
- ²⁰ In addition OSCAR data must be uploaded in the economic classification provided by the Office of National Statistics (60 categories) in order to complete the National Accounts.
- ²¹ More detailed scrutiny of spending proposals takes place in parliamentary Select Committees. These committees undertake more scrutiny of Estimates and their accompanying explanatory memoranda. However, the traditional approach to detailed Parliamentary oversight of public spending has focused on “after the fact” processes of review, audit and challenge of expenditure that has already taken place. Parliament rarely exercises its (theoretical) right to investigate, debate and approve of specific details of the executive’s spending plans before implementation.
- ²² The Spring Statement covers the state of the economy, the fiscal position and progress of public expenditure in light of the latest medium term expenditure framework. The current chancellor wants the statement to focus on “long-term fiscal issues”.
- ²³ This document sets out the expenditure and tax plans for the next fiscal year in line with the latest approved expenditure framework. It typically provides more detail on economic and programme groups than the main estimates document (appropriations bill) that follows later.
- ²⁴ The Financial Bill sets out the changes to revenue-raising legislation. It does not contain expenditure measures, these go through the appropriation bill. In the UK there is no medium term revenue framework that sets any constraints on the annual increase or decrease of the overall tax burden.
- ²⁵ The framework for publishing accounts is managed predominantly by GFR and implemented by the ministry concerned. It is characteristic for the devolved approach towards accounts management that Principals do not particularly review or challenge ministerial accounts unless a problem is identified (e.g. a Principal noted that policy changes within his line ministry had meant challenges in consolidating accounts by the year end, and this led to a long series of

discussions with GFR and the line ministry on how to manage this, where usually this would be an issue for the ministry to manage).

- ²⁶ The expenditure framework has played a central role in budget policy since its introduction in 1994. Until the financial crisis of 2008 the total ceilings have almost always been complied with. However, sometimes cabinets did not complete their terms and stepped down as a consequence of a political crisis. In those cases a new expenditure framework was adopted when a new cabinet was formed and the former framework had a shorter lifetime than the four years for which it was designed. In reaction to the global financial crisis some “stimulus” measures were taken in 2009 and 2010 that can be interpreted as an upward deviation from the total ceiling (for instance the removal of unemployment benefits from the social security ceiling). Furthermore, the tax reduction package of 2016 contained some measures at the expenditure side that implied an upward deviation from the total ceiling. When in the period from 2009 to 2012 the Netherlands were in the excessive deficit procedure of the Growth and Stability Pact, consolidation packages were adopted that implied a downward deviation from the total ceiling (Studiegroep Begrotingsruimte 2016).
- ²⁷ The Study group Budget Policy consists of civil servants of the most relevant ministries, the Central Bank and the Central Planning Bureau. In its advice over the upcoming Cabinet period it has mainly identified two problems in the functioning of the framework (Studiegroep Begrotingsruimte 2016). The first is the so-called indexation rate problem, which arises from the fact that a reserve for wage and price adjustment is included under the ceiling. It is based on a forecast at the start of the Cabinet period, taking into account the specific wage and price sensitivities of the expenditures in the budget, whereas the ceiling itself is fixed in real terms and annually translated in nominal amounts by the price index of GDP. This implies that errors in the forecast of the wage and price adjustment, which are not compensated by the annual update of the price index of GDP (because of the different base of both indicators), have to be solved under the ceiling. This may necessitate additional savings or provide for space under the ceiling (available for additional expenditure), sometimes amounting to billions of euros. Because of the technical complexity of the mechanism, this is hard to explain to politicians and citizens. The second is that there are trade-offs concerning the inclusion under the ceiling of the so-called macro items (gas revenues, interest payments and unemployment benefits) between control, predictability and automatic stabilisation. The Study Group recommends solving the indexation rate problem by using the public sector indexation rate for both the annual compensation of wage and price developments and the indexation of the framework. As far as the coverage of the framework is concerned the Study Group recommends bringing the interest payments and gas revenues under the ceiling (gas revenues as negative item), but to exclude unemployment benefits. This will extend the coverage of the ceiling while simultaneously strengthening the automatic stabilisation effect.
- ²⁸ The budget rules can be divided in budget norms, which describe the constraints for political decision-making, and implementation rules which describe how the compliance with the budget norms is ensured. In the current Cabinet the set of budget rules was made up of 36 rules, described in a document of 13 pages. Budget rules are politically agreed upon at the start of a Cabinet.
- ²⁹ There are mixed impressions on the usefulness of this two-year budget. The second year numbers are provisional, but some respondents felt that they were important because they allowed co-ordinators to engage with line ministries on reforms that take more than 12 months to implement. Another respondent suggested that it adds credibility to negotiations when trade-offs are made at the political level to increase resources in the outer year in exchange for lower allocations in the forthcoming fiscal year.
- ³⁰ It is guided by the Decree on Development Planning Documents and Procedures for the Preparation of the National Budget.

- ³¹ The Budget Memorandum is a government document that sets out fiscal and other policies in the next four-year period (Kamnar 2013). Among other information it includes macroeconomic assumptions, the fiscal framework (in accordance with the Decree on the Fiscal Framework) and major economic and financial measures included in the upcoming budget.
- ³² All euro area members must also have a law concerning fiscal rules in accordance with the rules of the Growth and Stability Pact of the EU. Under the new Fiscal Rule Act, adopted in 2015, the Slovenian Parliament approves limits on the budget balance and other macro parameters for a period of four years.
- ³³ The ceilings are stronger for a number of reasons. One is that the Fiscal Rules Act is based on an article of the Constitution, strengthening its legal basis. Second, the Fiscal Rules Act provides for structural budget balance and expenditure rules, and the application of these rules will be checked by the new Fiscal Council. Basically the formula targets a balanced budget over the medium term, with limits for expenditure depending on whether there is a positive or negative output gap. Finally, once approved in April, limits can only be changed again in September if there have been substantial changes in the circumstances on which the ceilings were first proposed.
- ³⁴ The numbers for the years t+2 and t+3 are indicative. The aggregates do not always comply with the fiscal framework.
- ³⁵ APPrA is managed by the Department for Budget Systems Development in the Budget Directorate of the Ministry of Finance and used by all direct budget users. Budget submissions are made through a web-based application known as SAPPPrA.
- ³⁶ In Slovenia it is common practice to issue a blanket restriction on commitments towards the end of the year either as part of a supplementary budget or in order to avoid overspending in the current budget year. One respondent described this process as helping to save one or two percent from annual expenditure. The restriction of commitments is initiated through a decree approved by cabinet. Though the decision is generally expected in the final quarter, the date has been varied in the past in order to prevent ministries from rushing in with new commitments. After that point ministries will need Ministry of Finance approval to enter into new commitments, and budget co-ordinators may be asked to provide an opinion. In practice, most of the mechanics of budget execution are housed outside the Budget Directorate. The Treasury Directorate is responsible for cash and debt management, while the Directorate for Public Accountancy is responsible for managing accounting practices and the budget execution system (MFERAC). When commitments are suspended, the Budget Directorate will work with these two departments on a daily or weekly basis to manage final commitments from budget users.
- ³⁷ Including that, certain ring-fences within spending are being respected.
- ³⁸ In the Netherlands spending review reports have been produced on an annual basis since 1981. The spending review procedure is co-ordinated by the Bureau of Strategic Analysis of the Inspectorate. Spending review reports are produced by working groups of civil servants. These working groups include representatives of the relevant line ministry(ies), the Prime Minister's Office, external experts and the Inspectorate of Finance. Spending review reports must describe saving options and their effects on policy objectives and the budget without recommendations. Each member of a working group can propose options. There is no veto right. All spending review reports are published. The number of spending reviews per year has diminished somewhat in the last decade (from 10-15 to some 5 per year). In the year preceding the previous elections (of 2012) 20 spending reviews were produced covering a large part of all expenditures and this also happened in years of parliamentary elections in the past (such large rounds are sometimes called "comprehensive spending reviews"). However, in the current year no large round of spending review has taken place in spite of upcoming elections, possibly because of savings fatigue and the positive economic outlook.

- ³⁹ The Cabinet formed in 2010 had fallen in early 2012, the Spring agreement was reached by the demissionary Cabinet and some opposition parties.
- ⁴⁰ Inter-ministerial reallocations for the purpose of compliance with the ceilings can be seen as forms of “general compensation”. However, this term is usually reserved for packages of lesser size.
- ⁴¹ The Bureau of Strategic Policy Analysis does not do empirical research itself. However, its officials are supposed to develop skills in policy analysis, based on existing empirical information. Most officials working in the Bureau have gained experience in policy analysis and empirical research in previous positions.
- ⁴² Subsequent Ministers of Finance had different preferences for the memoranda of the Inspectorate on council items. Some Ministers wanted to receive a memorandum on each item on the agenda of the council or sub-council, regardless of whether it had budgetary relevance. These ministers just wanted to know the backgrounds of every item on the agenda, since they had to decide on these items as members of the council, regardless of budgetary relevance. Other ministers did not require a memorandum of the Inspectorate on every item on the agenda, but only wanted a memorandum if the Inspectorate advised them to do something when this item was discussed (which implied that it was not only budgetary relevant but also required some intervention on his part), and memoranda on topics that had their personal and particular interest.
- ⁴³ This is tied to a system of quarterly cash limits that are set in the Public Finance Act. The Act defines two interrelated processes: determining the volume of expenditures of direct budget users in a certain period of time (i.e. quota) and budget liquidity planning (i.e. cash flow on the basis of the monthly plans) as part of the broader cash management arrangements under the Treasury Directorate.
- ⁴⁴ The counterparts of HMT are the ministries and the agencies reporting to HMT on expenditure management. Each ministry or agency must have an accounting officer. This person is usually its senior official. Consequently, the accounting officer of the ministry is usually the permanent secretary. The accounting officer should be supported by a board structure in line with the Corporate Governance Code. Formally the accounting officer is the person, who parliament calls to account for stewardship of its resources. HMT formally appoints the accounting officer. In practice the ministry determines who it will be and HMT will sign it off. The accounting officer has to sign off the annual financial statement of the ministry or agency.
- ⁴⁵ The current Director General of the Budget strongly promotes the idea that the Inspectorate and the finance directorates of the line ministries have the same interest, namely the smooth functioning of the budget process and the optimal delivery of financial information to the Ministers and the Cabinet. She is advocating this idea under the heading of “Government Budget Office version 5.0”, which includes both the Directorate General of the Budget of the Ministry of Finance and the finance directorates of the line ministries.
- ⁴⁶ These policy letters serve, next to the savings list that is prepared by the Inspectorate, as the main source of information on potential policy changes that is available at the start of budget preparation.
- ⁴⁷ The current Director-General of the Budget uses the IOFEZ group also to discuss general themes that are not immediately related to the current budget cycle but that have more long-term relevance.
- ⁴⁸ The current Director-General has held some meetings with heads of finance divisions and is considering to organise these meetings on a regular basis.
- ⁴⁹ The authors are not saying that all countries that have reformed their public administration in previous decades and that have strong traditions of devolution of budget authority to line ministries will probably show the same behavioural patterns as is found in the UK and the Netherlands. Rather, the authors presume that these patterns are due to specific institutional developments in the UK and the Netherlands that were made possible by previous reforms and

traditions in these countries, but that did not necessarily occur in other countries with a similar background of reforms and traditions.

- ⁵⁰ A flexible framework remains a medium term (multi-annual) framework even though it can be revised from year to year.
- ⁵¹ See section 3.2 above.
- ⁵² Slovenia has a budget for two years.
- ⁵³ There is however, a tradition of “conservative estimation” in the Netherlands, strongly supported by both the Ministry of Finance and the finance divisions of the line ministries. This implies that there are “hidden reserves” in many line items that can be used by finance divisions to offer specific compensation and by the Ministry of Finance to solve major problems.
- ⁵⁴ See for instance: Von Hagen 1992; Von Hagen, Harden 1994. For overviews of the economic approach to the budget process see: Von Hagen, Hallet, Strauch 2002 and Alesina, Perotti 1999.
- ⁵⁵ Institutional arrangements that are supportive of top-down constraints can be distinguished in those that are based on hierarchical subordination to a single decision-maker and those that are based on contracts between the ultimate decision-makers. Both arrangements lead to centralisation of the decision-making process (Von Hagen, Hallett, Strauch 2002).
- ⁵⁶ For this result to follow from the theory of n-person, co-operative, economic, simple majority games, it is necessary that some agenda constraint is put on savings proposals (Kraan 1990). Such a constraint could take the form that savings proposals can only be put forward across the board (compare the rule of incrementalism: existing spending is taken for granted) or that proposals for spending increases cannot be combined in the same vote with proposals for savings (compare the rule incrementalism that new spending is decided in bilateral negotiations; also called the rule of non-intervention).
- ⁵⁷ The result follows if various majorities subsequently vote in favour of government policies that benefit them, supposing that the benefits of each policy are more concentrated than the tax costs. It follows also if voting takes place on the basis of combined proposals in favour of policies that benefit more than a single minority, supposing that the benefits of each policy for its supporters exceed the tax costs of both the policy and the other policies comprised in the proposal (logrolling) (Kraan 1990).

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